★ BERLIN, BUSINESS AND STOCKS ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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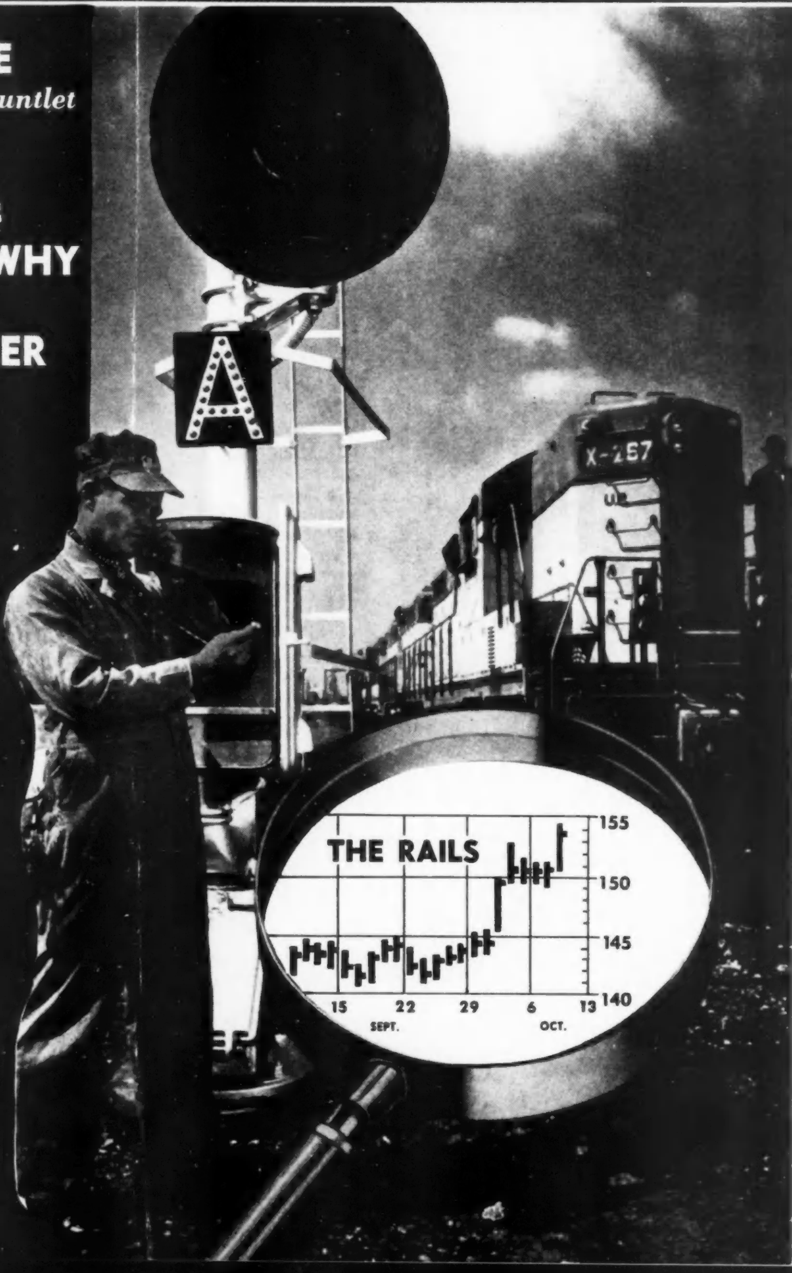


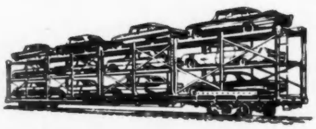
How'd you like 20,000 bosses?

I like it great . . . especially with them giving me so much reason to "blow my horns" about how our railway is moving ahead!

This is Rocky speaking. I work for all the people at Great Northern Railway. (You'll still see a lot of me in Glacier National Park, my original home. But my greatest claim to fame is being part of GN's trademark.)

Anyway, the view from my mountain top gets better all the time—because *this* railway is way ahead of the game, right up and down its 8,280 mile line in ten states and two Canadian provinces. And I know. I ride on GN locomotives, freight cars and trucks. I'm on train schedules and travel folders—maps, calendars and letterheads. And I even have speaking parts in advertisements like this.

So let me tell you about what's making Great Northern so *great* these days. (And I notice we're at the first picture already!)



You know what this is—a shipment of new automobiles.

For many years Great Northern—and lots of other railways—hauled fewer and fewer automobiles. But there's been a change. You should see us now. We load up to 15 autos on tri-level carriers—sort of piggyback—and away we roll!

And GN's schedules get those new cars to their destinations in a hurry.

Which gets me into a favorite subject: Great Northern's Coordinated Shipping Services. That's "train talk" for the way we team up freight car, truck and piggyback.

For example: ship some goods into Minnesota or Montana by freight car. Then Great Northern trucks will take over for delivery to outlying points. Or use a combination of piggyback and truck.

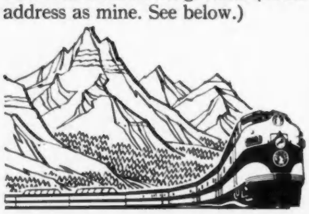
Whatever you ship (from perishables to pig iron) . . . wherever you ship (from the Great Lakes to the great Pacific Northwest) . . . however you ship (LCL, carload or trailerload) . . . Great Northern's Coordinated Shipping Services put you on the *right track*. And—at mighty advantageous rates! Check with your local GN freight representative.

Want you to meet a good friend of mine—Al Haley.

Al's our chief on geological affairs . . . an expert on things like lignite, oil and iron ore.

He's a regular genius at finding a gravel pit where no one thinks there's one around. And you should hear his talk on the Williston Basin chemical complex. ("Complex"? No—just crystal clear!)

Ask Al Haley about sulfur, or natural gas, or olivine—anything that comes out of the ground. (Same address as mine. See below.)



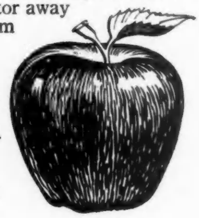
How about your next business trip—or family vacation?

Be a great time to rediscover the joys of train travel aboard GN's incomparable Empire Builder. The sight-seeing's superb from high-up in Great Dome seats. And so is the comfort—in reclining, leg-rest coach seats or spacious Pullman quarters. Marvelous food and service, too. Runs daily each way between Chicago and Seattle-Portland via St. Paul-Minneapolis and Spokane. A *great* way to go!

What is an apple?

It's what small boys shinny up trees after . . . and when one fell down on an Englishman's head several centuries ago, it led to Newton's law of gravity and a new age in science. It tells teacher she's "favorite" . . . and its blossoms tell poets and songwriters and young lovers it's Spring.

An apple is cider, sauce, butter, dumplings, pie and pan dowdy . . . and about 90 calories. It gets bartered for, begged for and bobbed for . . . sliced, diced, sealed, peeled and "polished". It gets cooked, candied and carameled . . . but mostly, just plain chawed and chomped on. It goes into bushel baskets and picnic baskets . . . lunch boxes, sacks and fruit stand racks . . . and into policemen's pockets. It keeps the doctor away . . . and brings kids in from play . . . and shows up in their cheeks.



An apple is as old as Adam . . . yet it's always news when "crop's in". And when it's the Wenatchee Valley crop, that's *exciting* news . . . to the whole apple-lovin' world!

The above is presented in behalf of some of Great Northern's favorite folks—the apple-growers in Washington's famed Wenatchee Valley. This year's crop is in (and it's a beauty!)—and we're busy movin' it to market with the help of 200 new mechanical refrigerated cars. Have the Missus bring home a crate of these big Delicious apples from your food store.

Final "toots" on Rocky's horns

Looks like I've just about "enthused" myself out of space! But I've got to put in a plug for our brand new steel boxcars. We add around 1,000 or more every year—and build a lot of them ourselves in GN's shops at St. Cloud, Minnesota. (Some of our new special-purpose cars are real dandies, too—like those tri-level auto carriers and mechanical refrigerator cars I mentioned. And boy, the way our new "plug door" boxcars team up with mechanical loading equipment is something to behold if you're speed and efficiency-minded!)

You should see the big increases in miles of our line under CTC (Centralized Traffic Control), too. And how we use an electronic pushbutton system to cut terminal time by classifying up to 3,600 cars a day at our Gavin Yard in Minot, North Dakota.

But maybe it's better that I invite you to get in touch with us!

If it's a matter of freight . . . talk to *G. D. Johnson, General Freight Traffic Manager*—or offices in most major cities.

If it's industrial or agricultural opportunities out our way, drop a line to *E. N. Duncan, Director, Industrial and Agricultural Development Department.*

If it's passenger travel, contact *Kent Van Wyck, Passenger Traffic Manager*—or ticket offices in most major cities.

Great Northern Railway

175 E. 4th St., St. Paul 1, Minn.

Offices in principal cities of the U.S. and Canada.

GREAT NORTHERN RAILWAY

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Contents

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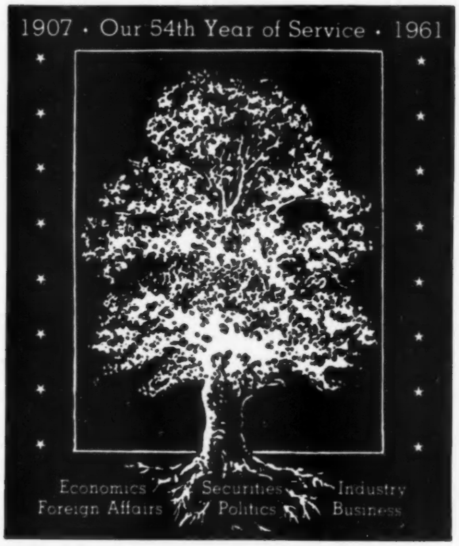


The Trend of Events

WHAT'S AHEAD FOR FEDERAL RESERVE POLICY
. . . the dollar, business, the banks and the Treasury

By JACK BAME

WITH just about every indicator of U.S. business activity, and of the status of private and public financial operations here, now being microscopically examined and interpreted not only by domestic observers but by monetary managers all over the globe, especially in Western Europe, Federal Reserve policy, and interest rate movements, have assumed wider significance than ever before.

At the same time, they have been subjected to new limitations, again due to overseas considerations—especially the U.S. balance of payments, movements of short term funds and gold, and their effects on the international evaluation of the dollar's position.

► Although there is some disagreement as to the rate of domestic business recovery, there is no doubt that production and demand are on the upswing. Now that another phase of the cycle is behind us, we can note some of the marked differences between conditions and policies in the last downturn and in the 1958 recession, why these changes occurred, and what the near-term outlook is as far as Federal Reserve policy and its domestic and international implications are concerned.

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and businessmen. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

The 1957-8 and 1960-1 Recessions and the Fed

The most meaningful shift from the situation of the post-war era up to and including the 1958 recession, and that which has existed since then, has been (1)—the restoration of external convertibility; (2)—the relatively free movement of funds internationally; (3)—the strength of monetary reserves; (4)—the return to fiscal and monetary discipline; (5)—and the sustained economic growth of most of Western Europe. *These developments made it imperative for the Fed to consider international financial conditions in formulating its credit policies, in addition to the state of business at home.*

Our balance of payments deficit, which had been a major source of European monetary recovery, jumped sharply, and many foreign-held dollars were either converted into gold or invested in short term Treasury bills here, thus reducing our gold stock and increasing our short term liabilities.

Now, for the first time, the Fed had to think of the effects that a lower discount rate and open market operations—concentrated only in the short term area of Treasury bills (the "bills only" policy)—would have on the Treasury bill rate, the flow of short term funds and gold

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: 1907 — *"Our 54th Year of Service"* — 1961

movements. These considerations led to an abandonment of the bills only policy and to Fed open market purchases in longer term Treasury issues, although the bulk of such activity was and is still in the bill area.

• Therefore, while the average three month bill rate fell to below ¾ of one per cent in 1958, in the period of monetary ease, it did not drop below the level of about 2¼% in 1960-61. This was done in order to cut down on the gold and short term funds outflow.

As a result of this policy it appears that there will be nowhere near as sharp a rise in this rate in the months immediately ahead as was the case in the last recovery, when the rapid increase in interest rates probably contributed to cutting the recovery short, putting an undue burden on monetary policy.

• The same prognosis holds for longer term government bonds too, mainly because commercial banks (despite a high level of loans to deposits) are now in a much more favorably liquid position than they were early in the previous business upturn.

• *Even if loan demands rise considerably with recovery, the commercial banks hold almost 40% of their governments in marketable issues maturing within one year, against less than 20% in mid-1959 and only 13½% in mid-1960. Forced bank sales of longer term government securities, at considerable losses (prices dip with rising yields), in order to meet new loan demands, can thus be avoided, as short term holdings represent an ample source of funds for bank lending.*

The Treasury and the Fed

► On the administration or Treasury side, the expected $6 billion budget deficit for fiscal 1962 represents a considerable negative factor in the view of foreign observers, but is still better than the $13 billion figure of 1958-9—somewhat of a rationalized source of comfort. Most of the immediate Treasury cash needs have been met, although increased world political and military tensions, beyond Treasury control, may necessitate additional borrowings, which would again be financed through short term issues.

If this Treasury demand for short term funds coincides with the rising demand for such funds from the private sector, as is likely near the turn of the year, a shift from the present Federal Reserve policy of monetary ease to a more neutral or slightly "tighter" orientation is probable.

The outlook is for some rise in short term interest rates, with some move in the same direction for longer term rates, but no sudden and sharp reversal to a really tight money policy is in the cards, as considerable excess productive capacity still exists, unemployment *(Please turn to page 164)*

As I See It!

By Malcolm Stewart

HOW ARE WE MEETING KHRUSHCHEV'S ATTACKS ON ALL FRONTS?

PRESIDENT Kennedy, who sold himself to the voters as a "take charge" type who would end the drift and indecision in American foreign policy, so far has failed to wrest the political initiative from the Communists on any major front or issue.

This, of course, is not entirely his fault. As his supporters point out, he inherited an extremely tangled set of problems and has been forced to grapple with many circumstances which are beyond his exclusive control. No man could have been expected to suddenly turn back the red tide all round the world.

Be that as it may, the record nevertheless shows that on those occasions when Kennedy faced the necessity for making a critical decision, the action all too often has been fuzzy and indecisive, far short of matching the vigor of his rhetoric.

Now—nine months after the inauguration of his administration—events are closing in on Kennedy in Europe, Southeast Asia, the Middle East, and some fateful decisions are going to have to be made within the next few months.

With the fate of Western civilization hanging on the ability of the United States to block the spread of Communist imperialism, it is fair to ask whether the new administration has learned some of the elements of jungle warfare as it is fought on the international political front.

The omens are not too heartening. Let's look at some of the separate pieces of the grim picture.

► **In Southeast Asia**—the Communists are gaining momentum again, hacking out new gains in South Viet Nam after consolidating the red position in Laos. There are ominous signs that the Laos fiasco could be repeated in South Viet Nam.

• It was in Laos that Kennedy pledged last March to stop the reds. But when the chips were down and allies became faint-hearted, he saw no other course than to let the United States be suckered into an international conference to "neutralize" Laos. There the Russians and Chinese Communists have succeeded in stalling things until now the red takeover in Laos is virtually complete.

• Laos already has become a supply corridor for Viet Cong forces threatening to cut South Viet Nam in two and flank Thailand.

What are the prospects for decisive action to halt the southward Communist thrust?

► The United States has decided against sending American troops to South Viet Nam. The official reason given is that President Ngo Dinh Diem's 170,000-man military force should, with U.S. advice and arms, be able to handle the situation. Actually Diem doesn't want any American command in his country lest it threaten the operation of his tight little police state. In addition, some of the allies are

against any intervention, arguing that it would "provoke" the Chinese Communists.

• The compromise decided upon is to try to create a SEATO task force in neighboring Thailand. The U.S. is willing to send two regimental combat teams for this task force . . . if it ever materializes.

• Chances appear good for another retreat in Asia when the Communists really turn on the heat . . . unless Kennedy has in mind action which he has not even hinted to anyone.

► **On the European front**—there are growing indications that the West is going to seek a compromise arrangement on Berlin which will settle nothing and leave the way open for another "crisis" whenever Khrushchev decides to turn the screw again.

The Kennedy administration failed to act when the Russians forced their East German stooges to seal off East Berlin and turn it into a vast prison camp. Rightly or wrongly, this failure was interpreted by the Russians as a sign of weakness and an indication that the West could be pushed further.

• Instead of acting, the United States and Britain started talking about willingness to negotiate. They were not deterred by French President Charles de Gaulle's warning that there was nothing to "negotiate" except abandonment of Western rights.

Now the outline of a possible settlement is beginning to take shape and it worries both the French and the West Germans.

► **Khrushchev, in return for his magnanimity in letting the allies stay in West Berlin, will exact from them an agreement to deal with the Communist East Germans for access rights as soon as he concludes his proposed "peace treaty" with the Ullbricht regime. This de facto Western recognition of the "sovereignty" of the puppet East German Government, whose territory is occupied by 30 Soviet divisions, is what Khrushchev really wants right now. He can afford to let the allies stay in West Berlin, under more humilliating access conditions, and bide his time for the next squeeze.**

• There is still time for Britain and the United States to heed de Gaulle's advice and simply stand firm and refuse to negotiate away any rights. But the pressures for compromise are strong in the Anglo-American countries, where moderation is considered to be a virtue. To Khrushchev it is not a virtue but a sign of weakness to be exploited for all its worth.

"Kennedy burn and Khrushchev bubble."

► **In the Middle East**—the United States faces the necessity to decide how it is going to play its hand in the light of the new situation created by Syria's break-away from Egypt and the resulting dissolution of the United Arab Republic.

The State Department, for fear of offending Egypt's President Nasser, delayed recognition of the new Syrian regime until after Russia had taken that step. This, although the small countries adjacent to the Soviet Union—Turkey, Iran and Jordan—which Khrushchev had threatened with reprisals again and again, had the courage to immediately recognize the Syrian government and express faith in its stability. That recognition by the Soviet Union followed shortly thereafter, speaks volumes for its anxiety to cover up the first sign of a rightist revolt against communism.

• Premier Kuzbari's new regime is conservative, probusiness, pro-free enterprise and pro-western. Its very moderation will make it the target of the political activists in the area—and the best organized are the Communists. As Nasser's organization falls apart, its elements are likely to be drawn into the Communist orbit and linked with the Kurds to the northeast.

• **Moderate elements in Syria are going to need swift western support if the country is to be prevented from again becoming an ideological battleground. It would be well not to worry overmuch about the sensitivity of Nasser, whose star appears to be descending rapidy.**

• It is too early to tell whether the Kennedy Administration will be capable of moving quickly and effectively into this situation without doing more harm than good.

► **On disarmament**, the Congo and the administrative structure of the United Nations, the East-West deadlock continues. There are no signs anywhere of solution on a permanent basis.

• This, then, is the picture the Kennedy Administration faces after nine months in office. It would seem obvious that the time for vacillation and indecision has ended and the period arrived when firm action is necessary to prevent further erosion of the Western position.

• It is possible that Kennedy may have learned by now that international politics is the same sort of jungle warfare, on a more deadly scale, as domestic politics. If he could project into the foreign field the decisiveness and firmness he showed as a domestic politician, he might find the results will be equally gratifying to him. **END**

Berlin, Business and Stocks

Despite further strength in utilities and a spurt in the long backward rail list, most stocks remain in the recent restricted range. Favorable business prospects argue against general liquidation but foreign uncertainty inhibits demand. Pending more light, especially on Berlin, we continue to recommend a selective and conservative investment policy.

By A. T. MILLER

PACED by rails for a dramatic change, the market staged a seemingly promising performance in the first October week. The rail average rose 6.78 points, mainly in a one-day surge, for the best gain in four years. Utilities pushed ahead to another new postwar high. Although remaining in the September-October range, the industrial average picked up 7.04 points.

But the apparent promise was quickly qualified, and partly nullified, last week. The industrial average gave up nearly 5 points. Utilities were virtually unchanged on the week. Rails had another more moderate one-day surge to a new 1961 high, easing thereafter to cut the week's gain to little more than a point. Mild softness and uneasiness ruled in the two final sessions.

Since the toning down could not be explained on technical grounds, what caused it? We think the answer is obvious. In the preceding week, with nothing tangible to go on, hopes for a peaceful Berlin settlement had been raised by the mere fact of State Department and Presidntial discussions with the Kremlin's Foreign Minister Gromyko. But the discussions proved fruitless. When that fact was officially indicated, hesitation and frustration returned to the market. Moscow still insists on calling the tune on the "German question", still offers no concessions to the West.

• So it remains no less a collision course than heretofore; and nobody can say with any assurance whether it will continue to the brink of war or whether there is a last-minute "detour" ahead. The market cannot sustain a confident mood under this uncertainty. It makes many people more inclined to sit on the fence than to buy or sell stocks, while traders play around with whatever can be moved for the moment—rails as the latest case in point—and institutional funds "play it safe" by continuing dollar-averaging programs in the more conservative sections of the list. Probably most people think that Khrushchev will not risk war—but still it does not foot up to full and confident conviction.

The Tecnichal Pattern

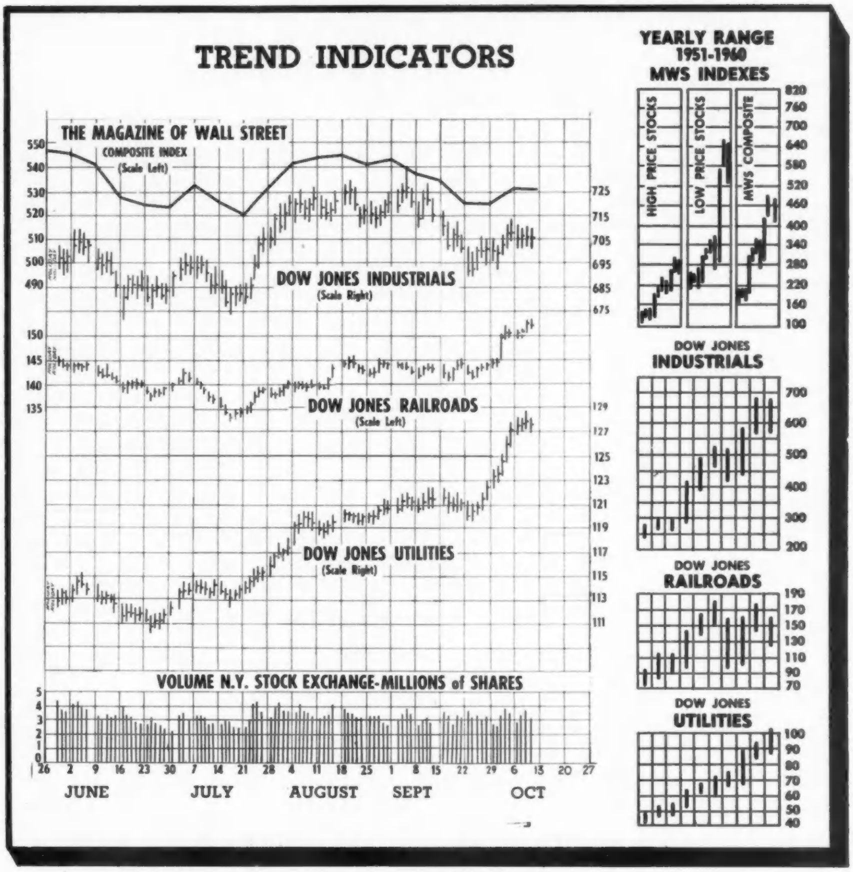
The industrial average is stymied at present, considerably nearer the September 29 reaction low than the early-September all-time high. If the uptrend is still in being, it has lost much of the earlier momentum. Even without the foreign uncertainty, that probably would be pretty much the normal pattern at this stage, with much of the business revival previously discounted and price-earnings ratios uncommonly

high for some time.

► In the first three months of the advance from the October, 1960, low, the gain averaged roughly 30 points a month. In the following three months through April it averaged 10.5 points a month, then slowed to 8.8 points in the three months of May-July. The July close—over ten weeks ago—was 705.37. The average closed last week at 703.31. This puts this picture in broader perspective than would discussion of recent interim swings.

► If anything, the utility uptrend has tended to gain fresh strength from time to time so far, with the pauses amounting to little more than level resting periods. Topping-out indications are still not evident.

► Past history requires that unusual spurts in rails be taken with a grain of salt. This average had two good days during the past fortnight and not consecutively. Whether this can become an uptrend in the real sense of the word is problematical. A slower, steadier rise would carry more conviction. At last week's 1961 high to date, the average remained nearly 9 points under its best 1960 level, some 22 points under its 1959 high and, of course, greater distances under the older highs.



► Ups and downs in individual stocks were fairly closely balanced last week. New highs exceeded new lows by better than three to one, but on the best day there were only 69 of them out of 1,280 issues dealt in. The favorable spread shown by our Supply-Demand measures remains narrow.

• **Market Leadership**—A few months ago there was considerable opinion that the time had come for capital-goods stocks to assume some market leadership, but it has not developed. Investment preference is still mainly for the consumer-goods and service-field stock groups. Among the groups now well under their 1960-1961 highs are agricultural implements, air conditioning, aluminum, auto accessories, copper, machinery, metal fabricating, railroad equpment and steels.

• The trouble in many of these lines—and in much of manufacturing industry generally—is intense competition, and either pressure on prices or inability to raise prices into line with increased labor costs.

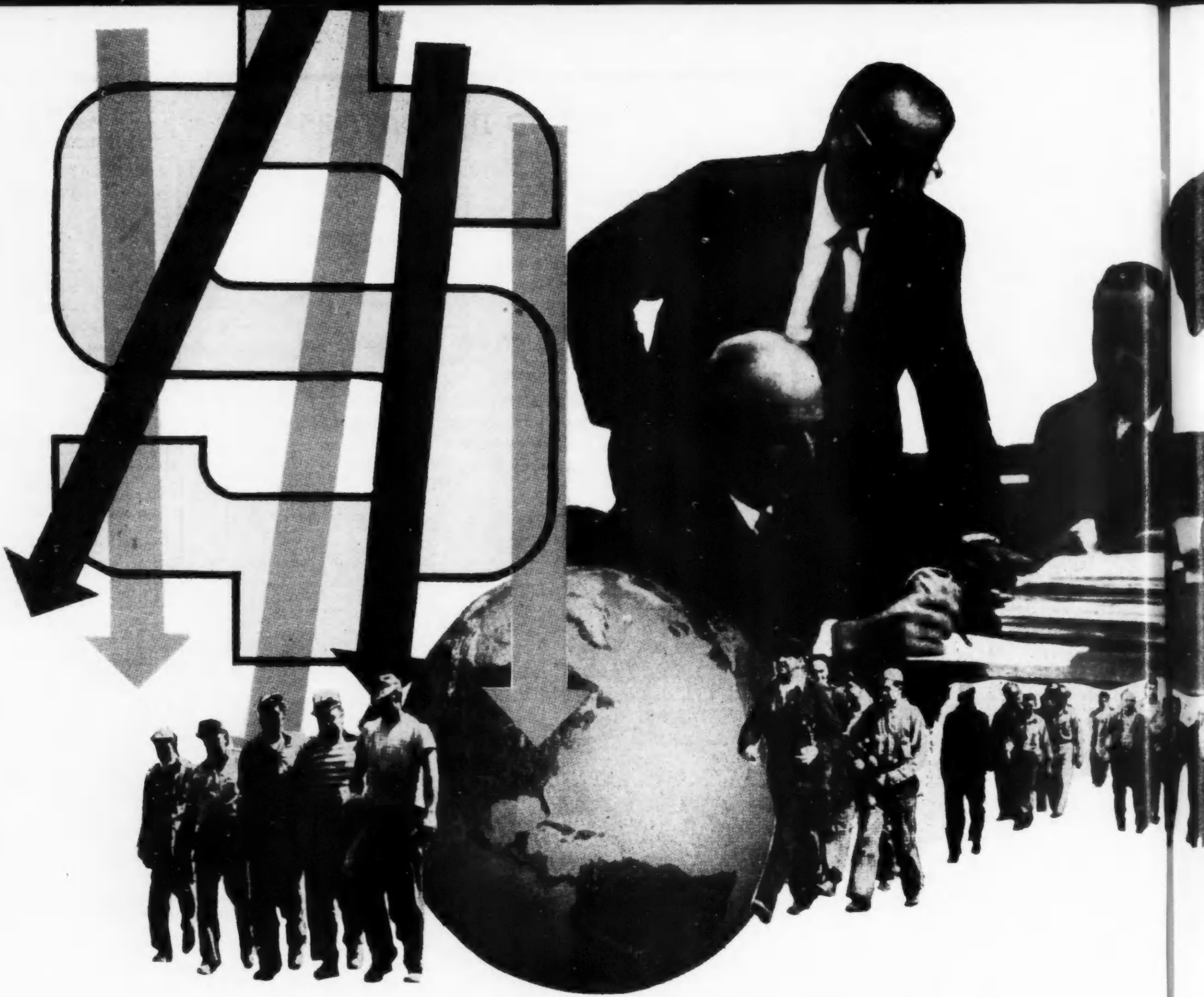
• **Deficit Spending**—Looking at the Government's deficit spending and continuation of the Federal Reserve's easy-money policy, the financial community is mindful of the long-term inflation threat. But for the business community, dealing with present supply-demand conditions and prospects, inflation "talk" is largely academic.

• **Prices**—The fact is that the wholesale price index is lower now than it was at the bottom of the business recession last February-March and lower than it was a year ago. The same is so for the index of all non-farm and non-food items. Moreover, actual prices are lower than the latter measure indicates, since it is based on "official" or "list" prices, whereas much business is done on unpublicized cut prices. "Discount selling" is by no means confined to the retail field.

What About Profits?

► If you have dreamed of any boom in corporate profits, forget it. Expansion of volume could well take them back, maybe in 1962, to around, or even somewhat above, the 1959 level—at which there had been insignificant growth since 1950. They will lag, relative to production and gross national product. Such being the prospect, could the market have a clear road now, regardless of the Berlin and other foreign uncertainties?

Of course, this is a generalization. Company prospects vary. So is any market average a generalization. But, without a fairly broad over-all rise, it will remain easier to preach the need for selectivity in portfolio management than to practice it successfully.—**Monday, October 16.**



THE BATTLE FOR TRADE

— As the World Throws Down the Gauntlet to American Leadership

By ROBERT B. SHAW

- **Why it isn't wages alone — the use of semi-skilled wokers under automation — new efficiencies and productivity abroad**
- **Comparing taxes and depreciation rates in the various countries — including "socialist" Sweden — advantages for Russia**
- **What of tariffs — the answer — the other steps we can take**

FAR from the least of the profound economic changes which have transformed the American scene in the last decade is the remarkable rise in foreign competition.

Of course, the penetration of some foreign goods into the American market is nothing new. But before World War I the slowness in transportation and the backwardness of many foreign countries severely restricted their export opportunities in manufactured goods. During the 20's and 30's much of the world, our country included, lived behind comfortable trade barriers. And after World II our domestic industry enjoyed a final brief respite as Japan and most of Europe were engaged in crawling out of the ashes of destruction left by the war.

But then the long, comfortable golden era for American industry came to an end. Now in a world where transportation has shrunk distances and trade barriers are regarded as archaic, revitalized foreign economies are competing on an international scale with dynamic vigor. Many of these countries enjoy substantial advantages over our own manufacturers—advantages which seem to be growing stronger year by year. To the extent that these advantages are inherent—if foreign manufacturers are actually more ingenious than our own—then there is little we can do except to resign ourselves to a deteriorating trade position. But if many of

these advantages are purely artificial—the result of burdens placed upon our industry — effective corrective measures should be possible. It is important, therefore, for investor-participants in American industry to examine realistically the reasons behind our losses to burgeoning foreign competition.

What Has Happened to U.S. Export Trade

First, however, a brief glance at the trends in American foreign trade since 1953. During this period our imports have risen steadily, from about $11 billion to $15 billion per annum, in 1960. Exports climbed more rapidly at first, from $12 billion in 1953 to $19 billion in 1957 and then dropped sharply in the two following years. Last year, to be sure, a full recovery to the 1957 level was made, although this was not yet enough to wipe out our unfavorable balance of payments.

During the post-war era U.S. exports have typically consisted largely of machinery — comprising 35% of the total in 1959. It should indeed be a source of pride to us that our machinery is so highly prized all over the world. Yet, much of this machinery has undoubtedly gone to rehabilitate other nations and thus to set up our own competition; by its very nature this market will be largely self-eliminating. In the important category of "Other Manufactured Goods" we have done much more poorly. Exports in this category, in fact, advanced only 2% from 1953 to 1959.

During this same period Japan boosted its exports of general manufactured goods by 180%, West Germany 137%, Italy 128%, and so on. By contrast the United States barely got beyond the starting point in this important race.

Perhaps some solace may be found in the fact that we have not typically been an exporting nation. In 1959 exports contributed barely 3% of our Gross National Product. In contrast, Japan and many European countries must export or die; in extreme cases, like Netherlands and Switzerland, exports exceed a third of annual production.

► But this does not mean that we will be any the less vulnerable to foreign competition in our own domestic market. Indeed, the impact of such competition is more severe than the import statistics show, for many American industries are certainly held to abnormally low profit margins by the threat of foreign imports that would follow any price boosts. It is probably foreign competition more than the lurking threat implied in President Kennedy's recent letter to steel excutives that has contributed to holding the line in that indusry. And what is true of steel is also the case for paperboard, cellulose, glass, typewriters, cameras, electrical equipment and a whole host of products.

Lower Wage Rates Abroad: A Partial Answer Only

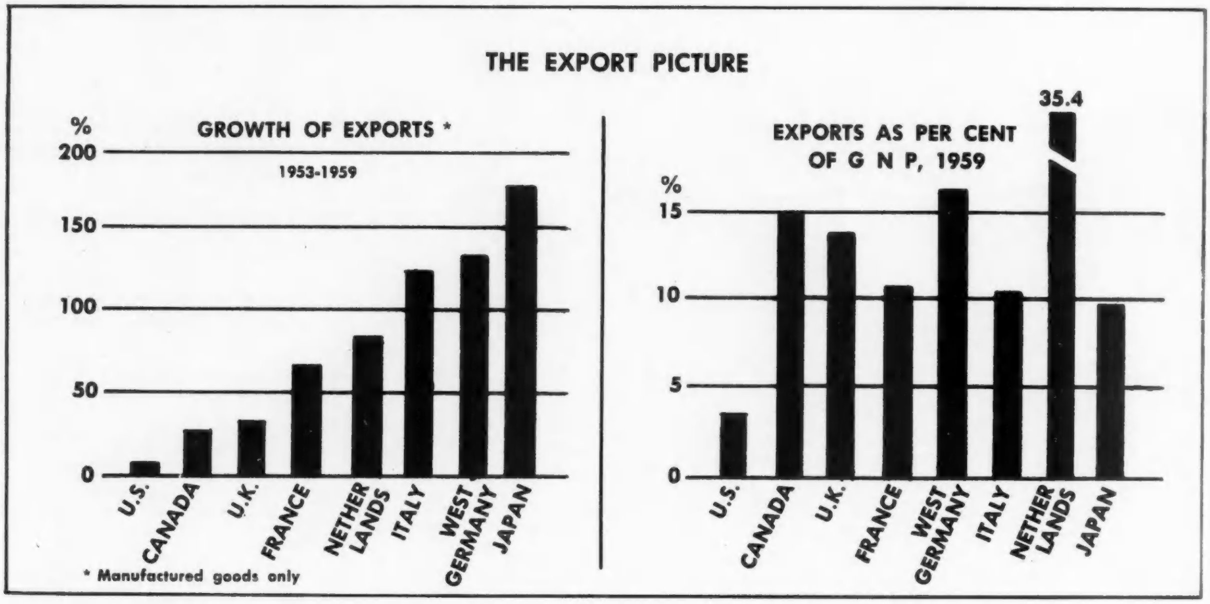
Labor Costs—Almost always the first reason cited for the successful invasion of our domestic market by so many foreign manufactures is the low wage rates prevailing abroad. And this is a powerful factor. A generation or longer ago, in fact, American industry had pretty well resigned itself to the loss of markets for goods made largely by hand labor: clothes pins, cheap toys, Christmas tree ornaments and the like. What now hurts so much is that this competition has recently spread to such intricate items as machinery, optical instruments and electric generators.

► Lower wage rates are undoubtedly largely responsible for the capture of many of these markets by foreign imports. Outside of Canada no other country has a wage scale even remotely approaching the average of $2.75 an hour for all manufacturing paid in the United States in 1960. According to the National Industrial Conference Board, West Germany came closest to this peak at 90¢ an hour, Great Britain followed with 85¢, and Japan trailed far behind with 30¢.

Among selected industries the discrepancy is even more extreme; basic metal workers in the U. S. last year received average remuneration of $3.45 an hour vs 38¢ for the Japanese. And, generally speaking, foreign labor in western Europe and Japan seems to be just as skilled as our own. Thus, hourly wage rates one-third to one-fifth of our own naturally give European manufacturers an enormous advantage in supplying one-third of our flat glass requirements or in laying down steel shapes at Great Lakes ports 10% to 30% cheaper than the nearby mills can manage to supply.

Nevertheless, it is probable that low wage rates abroad have been overemphasized as an explanation for successful foreign competition. At least, this is a long-standing factor, which does not, by itself, explain the accelerated penetration of our domestic markets within the past five years. As a matter of fact, wage rates have advanced more rapidly in most foreign countries than in the United States during the past decade.

The Japanese worker is still poorly paid by our standards, but he no longer labors all day for two or three cents, just enough to buy a bowl of rice. Between 1953 and 1959 hourly earnings in the United States advanced 31%, as compared with 45% or more for most other industrial nations. (For some years before 1953, to be sure, wage rates had risen more rapidly in the United States than in most foreign countries.) In brief, foreign countries have been able to invade our markets while their wage rates were climbing more rapidly than our own; while this does not wipe out their advantage of much lower absolute rates, it also means that we must look for some further explanation.



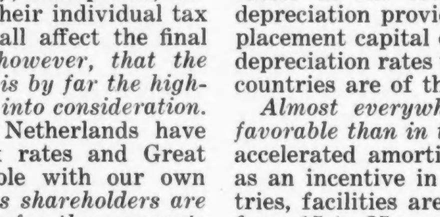
Negligible Offset Against U. S. Corporate Tax

► **Taxes**—Most important of the non-wage costs which industry must bear is taxation. It is impossible to compare corporate tax structures closely in different countries, as the treatment of depreciation (which will be considered below), exemptions, offsets granted to shareholders on their individual tax and the degree of enforcement all affect the final tax payment. *Indications are, however, that the United States corporate tax rate is by far the highest in the world, all factors taken into consideration.*

To be sure, France and the Netherlands have apparently higher corporate tax rates and Great Britain a levy closely comparable with our own 52%, *but in all of these countries shareholders are granted a very substantial credit for the corporate tax.* **In this country, as shareholders are well aware, double taxation of corporate earnings is the rule; the credit against dividends is merely nominal, and the Administration is trying to wipe out even that modicum.**

It is also probable that tax laws are more rigidly enforced in the United States than most other countries. In many of them, at least, evasion is widespread.

Regardless of the legal position, "profits" are a cost, a rental paid for the use of capital. Industries, here and abroad, are in competition with each other for equity capital. **Our own habit of penalizing capital heavily by taxation is a burden that gives a strong advantage to foreign industry; in fact, it has led to the flight of large amounts of domestic capital seeking the more comfortable terms available abroad.**



U.S. Far Below Other Countries

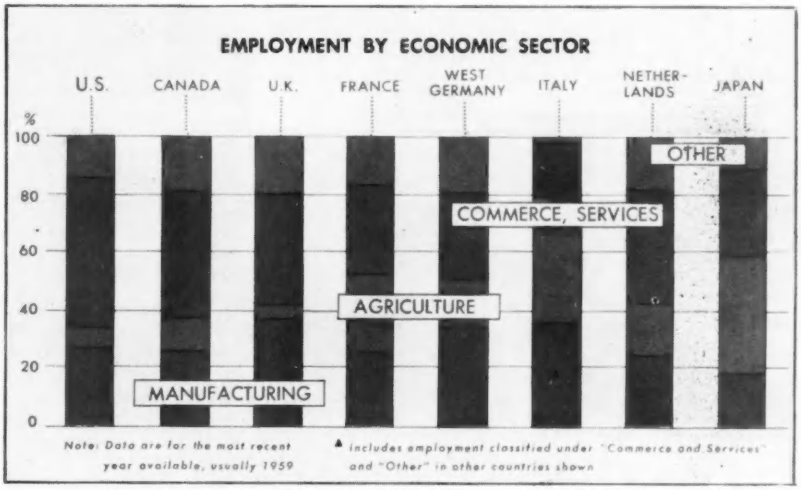
Comparative Depreciation Rates—Another important non-wage cost is depreciation—the consumption or obsolescence of plant and machinery. Now, of course, equipment does not ordinarily wear out faster in one country than another, but because depreciation provides a method of accumulating replacement capital on a tax-free basis the formalized depreciation rates that have been established in most countries are of the utmost importance to industry.

Almost everywhere these rates are much more favorable than in the United States. Aside from the accelerated amortization that was recently allowed as an incentive in certain defense-associated industries, facilities are usually assigned a useful life of from 15 to 25 years, equivalent to annual depreciation rates of from 6⅔% to 4% on the straight-line basis. Since 1954, to be sure, the declining-balance method has been authorized for new property, and this would mean corresponding rates of 13⅓% to 8%—or a maximum write-off of about 35% in the first three years.

• *How does this compare with rates in other leading industrial countries?* Well, in ***"socialistic" Sweden*** any property can be written off over a five-year period. In the ***Netherlands*** one-third of the property can be written off in the first year, beginning from the time that a contract for equipment is placed; in neighboring ***Belgium*** various categories of machinery can be depreciated over from four-year to ten-year periods, with even more favorable treatment since 1959 for new ventures or large additions to existing plants.

The basic rate on machinery

in *Germany* is 10%, but this may be accelerated on the declining balance method to 25% in the first year and about 58% in the first three years. *France* allows an ordinary straight-line write-off of 15% (i.e., a life of less than seven years), and this may be doubled if the machinery is used in multiple-shift operation. As much as 57.8% may be amortized in three years, under the declining-balance method. Although *Great Britain* has the least liberal depreciation allowances among European countries, various categories of machinery may be written off at from 7½% to 20% a year on a straight-line basis, or an increase of one fourth on the declining-balance method.



► **A related problem handicapping American industry is that, because of inflation, full depreciation of equipment purchased 25 years ago does not come close to covering replacement.**

Several countries, including Great Britain and France, make additional tax-free allowances in excess of historic costs to compensate for inflation. Sweden even allows a tax deduction of up to 40% of net income in any year for reserves to stabilize economic activity. *But the United States is backward in this respect; rather than any incentive being given for modernization the process is heavily penalized.*

Failure to Recognize Obsolescence

► **Our niggardly depreciation rates are the more dangerous because, increasingly, it is obsolescence rather than physical wear and tear that terminates the life of machinery.** Machine tools, for example, typically become obsolete now within five years. Earlier this year the Senate Small Business Committee itself declared:

"Present depreciation policies do not sufficiently encourage the expansion of the national economy. Indeed, those policies have, in all probability, stifled economic growth."

As a partial answer to these criticisms the Administration proposed, as part of its tax bill, a small credit against the cost of new equipment. This measure was generally opposed by business and is now dormant. *But what is needed is not a makeshift tax gimmick like this, but a straightforward liberalization of depreciation rates.*

More Rapid Productivity Increase Abroad

Greater Efficiency—While the heavier taxes and lower depreciation rates in the United States do give foreign industry an important artificial advantage, it should not be fondly imagined that this fully explains its success in invading traditional American markets. On the contrary, European and Japanese industry is highly efficient, and is growing more so.

According to the United Nations, productivity in terms of output per man-hour in manufacturing has increased 71% in Japan since 1953, 58% in Italy, 54% in France and 53% in West Germany. The United Kingdom has lagged seriously with a 29% advance, but down at the bottom of the list, with only a 15% gain, stands the United States.

• The reasons for this superior performance abroad are not hard to surmise. Foreign industry, largely wiped out during the war, has been rebuilt from scratch, often with our financial aid and technical advice. Possibly there are also psychological factors, such as less featherbedding by Japanese and German workmen. But whatever the reasons, the results are clear: a new, tougher foreign competition.

Will Automation Help—or Hurt—Us?

Automation—Thus, the comfortable lead that the United

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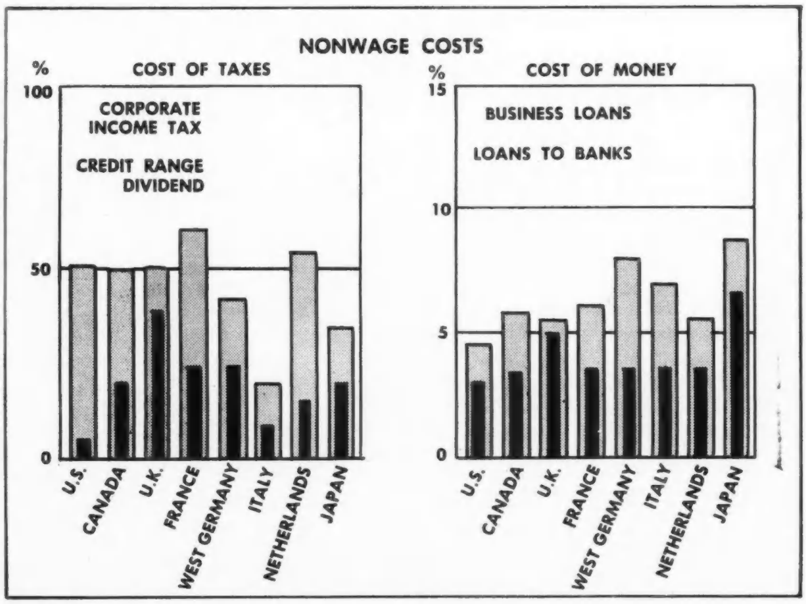


THE RISE AND FALL OF GLAMOUR STOCKS... AND WHY

By WARD GATES

► **What happened to the various high-flying companies — the common-sense yardstick to use when evaluating the speculative issues**
► **Stable stocks and a different point of view**

T doesn't take much dissection to discover that the stock market is made up of widely divergent movements. In recent weeks we have been treated to the spectacle of strong upward trends among utility, tobacco and food stocks—and a dramatic rise in the rails, while electronics, vending machines and other recent favorites of the speculative fraternity have fallen flat on their faces.

This phenomenon of highly popular stocks getting an unexpected comeuppance is a recurrent theme which should be noted carefully by investors, since the lure of large speculative profits is ever present, while the pain of aborted growth stocks often gets hidden by the inattention of the financial press and the disappearance of yesterday's belle from familiar brokerage market letters.

Where, for example, are the Canadian oil stocks that adorned the financial literature only a few years ago? In what limbo does titanium now exist? Where are the uranium stocks, now that the USSR is fulfilling its bright promise by contaminating the atmosphere with radiation? And what ever happened to the glittering prospects for aluminum?

These aren't idle questions. For they point up the simple truism that the only real criteria of stock values is earnings and dividends. When the reality of daylight brushes away the nocturnal fantasies of speculators, the results are usually broken dreams and depressed stock prices.

The two accompanying tables present the cold realities in painfully graphic terms. Table I, which presents several stocks that have been in longer-term down-trends, is not confined to one-time glamour issues, but the lessons to be gleaned are instructive nevertheless. For in almost every case the current prices represent either a more realistic appraisal of the company than was once the case or the depressed price of unfilled promise.

15 Stocks That Have Declined From Recent Highs 1960-61 To Date

	High 1960-61	Recent Price	Points Decline	Percent-age Decline	Earnings Per Share 1st 6 Months 1960	1961	Percent Change In Earnings	Earned Per Share In Past 12 Months	Priced Earn. Ratio *
Allis-Chalmers Mfg.	40	22	18	45%	$ .83	$ .50	—40%	$ .79	27.8
American Machine & Foundry	63	44	19	30	.72	.74	+ 2	1.55	28.3
Ampex Corp.	42	20	22	52	.05[1]	.01[1]	—80	d .51	—
Avnet Electronics Corp.	68	26	42	61	.73[2]	.70[2]	— 4	.70	37.0
General Instrument	55	28	27	49	.26[3]	.27[3]	—	1.40[4]	20.0
Hewlett-Packard Co.	53	29	24	45	.34[5]	.38[5]	+11	.50[4]	58.0
Nafi Corp.	66	26	40	60	1.28	1.34	+ 4	1.48	17.5
Perkin-Elmer Corp.	83	51	32	39	1.05[6]	1.05[6]	—	1.05	48.5
Standard Kollsman Industries	53	35	18	34	.69	.77	+11	1.74	20.0
Texas In-truments	256	110	146	57	2.00	1.60	—20	3.51	31.3
Transitron Electronic	60	18	42	70	.80	.40	—50	.68	26.4
Underwood Corp.	65	38	47	72	d2.62	d1.40	+46	d5.05	—
Universal Match	80	33	47	58	.80	.43	—46	.83	39.7
Varian Associates	77	43	34	44	.69[5]	.61[5]	—11	.75[4]	57.3
Vendo Co.	77	46	31	40	.75	.41	—45	.86	53.4

d—Deficit.
*—Based on latest 12 months earnings reports.
1—1st fiscal quarter ended July 31.
2—Year ended June 30.
3—1st fiscal quarted ended May 31.
4—Estimated.
5—1st 9 months.
6—Year ended July 31.

Carrier can serve as an illustration. In 1957 when the stock sold as high as $65 on earnings of $3.17 per share, investors were confident that air conditioning was in one of the major waves of the future. And so it has proved to be. What they failed to see, however, was that its profit potential would be largely dissipated in a competitive struggle among scores of producers. Hence, while the use of air conditioning boomed beyond the most optimistic projections, Carrier—and others in the field—were hamstrung in the profits column by depressed prices and overproduction. The result for Carrier was no earnings progress in most years and a drastic drop to $2.03 per share in 1960. Some recovery is indicated for 1961. but hardly enough to alter the market's judgment, which has pushed the stock to a level some 25 points under previous highs.

Good Company, Bad Industry

In many cases, and Carrier is one of them the return to stern reality has little to do with the company's performance or the calibre of its management. Rather, the current price merely represents a skimming off of the exaggerated premiums which overenthusiastic investors put on the stocks in the first place.

American Motors is another case in point. Two years ago investors were bidding wildly for the privilege of owning the shares. So wildly, in fact, that an outsider might have thought the company was soon to replace General Motors as number one in the industry. But today, at 18, the stock is 44% below its high while earnings are down 50% from the peak of $3.37 scored in 1959. And yet, American Motors has really fulfilled its promise. What was once a sick "also-ran" in the highly competitive auto market is now a lusty independent recognized by all as a vital force in the industry. Moreover, even in a bad year such as 1960, the company managed a profit of $1.67 a share on a fully taxable basis, indicating that it is now firmly on its feet.

In effect, nothing is wrong with American Motors. It was the ridiculousness of the price, which reflected both temporarily tax-free earnings and indiscriminate speculation, that caused the disappointment. The disease of overoptimistic investmentitis infects many stocks.

Walt Disney is another. True, its earnings have failed to grow, but there was little in the picture in the first place to indicate anything but occasional bursts.

The market, overexcited about Disneyland and a few television successes, viewed one or two good earnings years as proof that Disney had discovered some magic formula for steady profits growth. What it failed to recognize is that entertainment audiences are as fickle as stock speculators.

Disney will have new and perhaps bigger successes. But in most years the business will just run along at a normally profitable rate because that is all that can reasonably be expected.

Fundamental Changes

In other cases, however, there have been fundamental changes in either the industry or company position. Some of these changes might have been foreseen by the discerning eye. Both **Eastern Airlines** and **Pan American,** to illustrate, suffer from basic conditions affecting their industry. But these conditions were highly predictable. As far back as 1955, when Eastern was making its all time high, it was obvious to many analysts that the bright promise of jet transports would be dimmed by the high costs of financing the equipment.

Moreover, while investors were impressed with the jets they failed to notice that faster and bigger planes would not solve the industry's most basic problem, the overlapping of routes and the necessity for flying too many empty planes to places no one wants to visit.

Pan American's problems are further complicated by the fact that American regulatory agencies cannot control the policies of competitive foreign airlines. But both at home and abroad the results have been the same. The public took eagerly to jet travel, but the combination of high costs and an inefficient

25 Stocks In Longer-Term Decline, 1955-1956 to Date

	High	Year	Recent Price	Points Decline	Percent-age Decline	Earned Per Share In Year of High	Earned Per Share In Past 12 Months	Per-cent Change	Price Earn. Ratio*
Admiral Corp.	30	1955	12	18	60%	$1.66	$d1.10	—%	—
American Motors	32	1959	18	14	44	3.37	1.67	—50	10.7
Anaconda Co.	87	1956	49	38	44	12.85	4.25	—62	11.5
Bucyrus-Erie	56	1956	17	39	69	3.64	d4.86	—	—
Carrier Corp.	65	1957	39	25	39	3.17	3.51	+10	11.2
Chrysler	101	1955	56	45	44	11.49	d.84	—	—
Curtiss-Wright	49	1956	17	32	65	5.64	.99	—82	17.3
Disney (Walt) Productions	59	1959	35	24	40	2.15	1.60[1]	—25	21.8
Eastern Air Lines	58	1955	22	35	62	5.32	d2.48	—	—
Endicott Johnson	41	1959	21	20	48	1.50	d4.93	—	—
Flintkote	44	1959	26	18	41	2.41	1.77	—30	14.6
General Dynamics	68	1957	28	40	58	4.80	d5.44	—	—
Halliburton Co.	92	1956	49	43	46	4.94	3.90	—21	12.5
Joy Manufacturing	72	1956	38	33	46	6.10	2.75	—54	14.0
Kaiser Aluminum	70	1956	34	36	51	2.87	1.13	—60	30.0
Kress (S. H.) & Co.	55	1955	21	34	61	3.81	.46	—87	46.1
Lehigh Portland Cement	58	1956	25	33	56	2.82	1.30	—53	19.2
National Lead	138	1957	81	57	41	4.64	3.86	—17	20.9
Pan American Airways	35	1959	18	17	48	1.17	.33	—71	55.4
Raytheon Co.	73	1959	36	37	50	3.02	1.74	—42	20.6
Reynolds Metals	71	1959	38	33	46	2.39	1.16	—51	32.7
Rheem Manufacturing	45	1955	14	31	68	3.10	d1.22	—	—
Royal Dutch	60	1957	31	29	48	5.53	3.65	—34	8.5
Sharon Steel	59	1956	23	36	61	6.28	d.99	—	—
United Fruit	60	1955	24	36	60	3.82	.31	—91	77.4

d—Deficit.
*—Based on latest 12 months earning reports.
1—Estimated

industry structure squeezed out the profits.

Royal Dutch, in the oil industry, and **Kaiser** and **Reynolds Metals** in the aluminum industry, also illustrate the risks inherent in fundamental change. Their deterioration needs no further elaboration since they have been discussed frequently on these pages. But the point should be clear that speculative optimism usually persists beyond the point of rational analysis.

The overcapacity and price structure diseases that afflict both groups were clearly discernible as far back as 1956. Yet the follow-the-tape fever is so hot that few unseasoned investors look at the fundamentals until the heat has resulted in a singed pocketbook.

One other illustration among the stocks in longer-term downtrends deserves lengthy comment because of the great lesson it contains. That is the **Chrysler** story. It is no coincidence that Chrysler hit its high back in 1955, a year of booming sales for the entire auto industry. That year, in fact, Chrysler earned $11.49 a share, so that the high of 101 seemed no more than a reasonable multiple.

In 1960, however, Chrysler showed a deficit, and its record between 1955 and 1960 has been far from impressive. What speculators failed to note in 1955 is the simple fact that Chrysler's capital structure and the normal vicissitudes of the auto industry will almost invariably lead to sharp ups and downs in earnings. To pay a premium for one year's earnings without carefully studying the probabilities that those earnings can be maintained over a period of years is the height of shortsightedness.

Fallen Idols

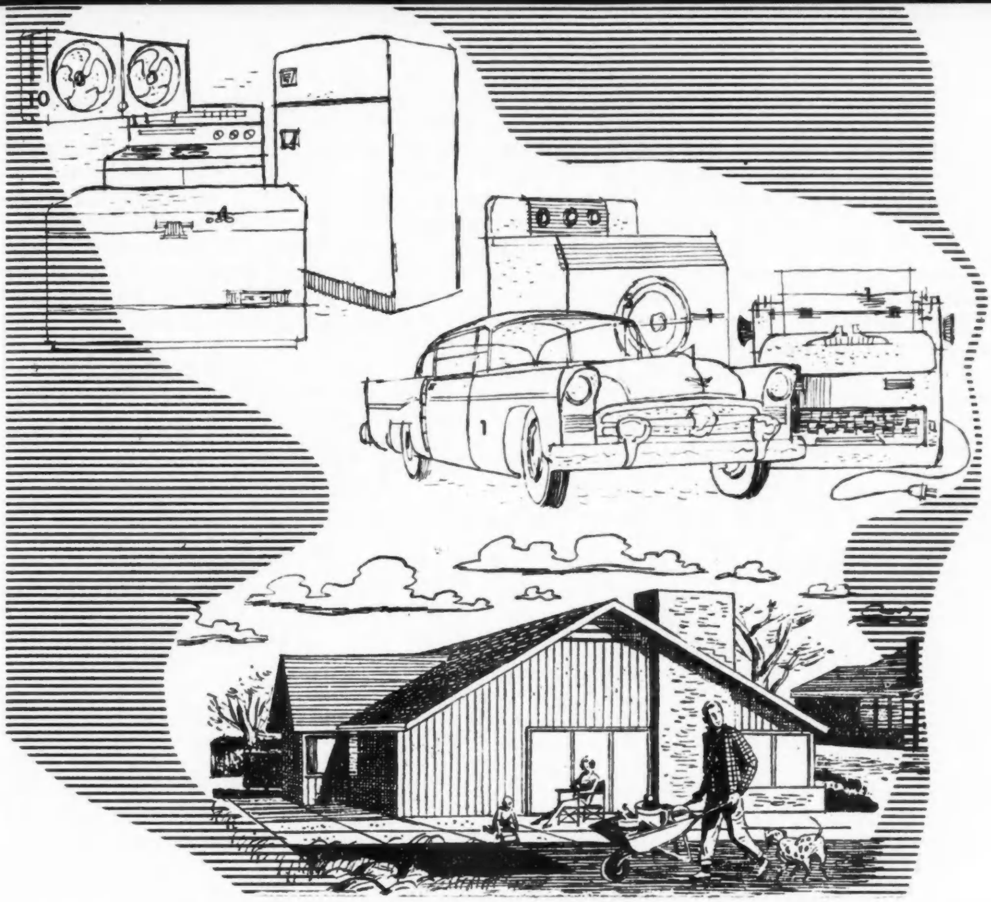
Table II contains a list of stocks that have one important distinguishing characteristic which separates them from the group in Table I. They have all broken hearts in a much shorter period of time.

Some, it is true, may come back. Others may settle down as seasoned stocks and regain their former lofty heights over a period of years. But in any event, the pain for recent buyers is acute. What happened?

Allis-Chalmers is the easiest to deal with because its earnings picture has simply fallen apart, leading to successive dividend cuts in recent years.

But what about such bright stars in new and exciting industries as **Transitron, Ampex** and **Texas Instruments**? In each case, investors were certain they had latched on to a skyrocket that would take them over the horizon to the pot at the end of the rainbow. Actually, as much promise still attaches to these industries as ever. But early hopes were grossly exaggerated while competition was underestimated.

In many respects the electronic industry resembles the television set industry of a few years ago. The potential market for the industry as a whole is enormous—perhaps incalculable. But, and the **but** is a big one, it takes relatively little capital to enter most electronics fields. Hence, as new products which show large volume potential develop, scores of outsiders come rushing into the field to fill the demand. It is no accident that electronics components have been the favorite area of *(Please turn to page 160)*



THE AMERICAN CONSUMER —HEEL OR HERO?

By HOWARD NICHOLSON

- The various economic and psychological factors in consumer buying — cyclical upturns — durable goods demand today — the difference between '49 - '58 — what the fourth quarter of 1961 looks like
- Today's different needs — inferior and shoddy products — impact of international tensions — effect of increased cost of goods and services — those recalled to military duty — the slowdown in family formations — its significance to GNP
- What prospects for consumer buying, looking to 1962?

WHAT has happened to the American consumer, widely hailed as the "hero" of the 1960-61 recession last Winter when he began to step up his purchases of goods in the face of a mounting tide of unfavorable business news?

Has he gone on strike, as many fear? Since last Spring, total retail sales after adjustment for seasonal variation have shown no real improvement, month after month. Meanwhile, industrial activity has risen sharply as factories have stepped up production in anticipation of substantial improvement in consumer demand.

The possibility that the consumer will turn out to be the "man who wasn't there" has begun to send cold chills up and down the spines of government officials, who have been counting heavily on increased Federal spending and much talk of further substantial gains in outlays to touch off improvement in the economy in all directions.

Many business men are equally concerned, especially those in retailing, who have been placing big orders for goods in anticipation of sharp upturns in consumer spending.

And, while automobile industry executives are bravely predicting sales of 7,000,000 1962 model cars, Detroit is all prepared to stem the current rising production if dealer sales in the weeks ahead do not live up to expectations.

The Big Wheel

Although much emphasis is being placed on the upward trend in government spending, economists

are only too well aware of the major importance of consumer spending in our economy.

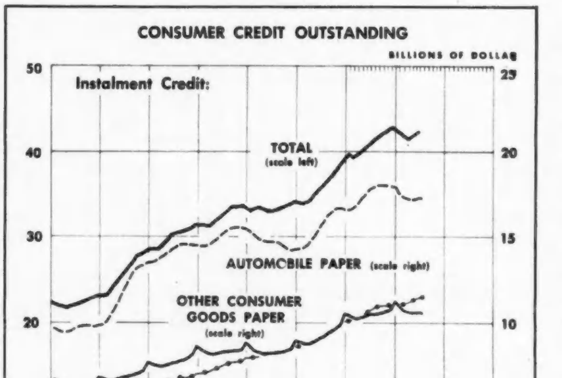
"Personal consumption expenditures" for goods and services account for nearly two-thirds of the total gross national product. In the second quarter of this year, these expenditures were at a seasonally adjusted annual rate of $336.1 billion, equal to 65.1 percent of GNP. Government spending (Federal, state, and local) for goods and services was at the rate of $107.2 billion, equal to 20.8 percent of GNP.

It is all well and good for Administration economists and some private economists to talk of government spending rising to a rate of approximately $125 billion by the fourth quarter of next year, and of the GNP rate rising to around $600 billion, but they must be well aware of the fact that such sharp rise in overall business activity would be possible only if other contributors to the GNP total, and especially the all-important consumer expenditures, increased by the same ratio as government spending.

These ratios are not fixed and immutable. If consumers continued cautious, with the contribution of government spending to GNP rising to 22.8 percent, the GNP total would be barely $550 billion or 10 percent below the apparent Washington "goal" of $600 billion.

Indeed, the estimates of a GNP rate of $540 billion for the current quarter are unlikely to be attained unless there is a pronounced change in consumer attitudes, particularly with respect to the use of instalment credit for the purchase of automobiles and other durable goods.

A business boom cannot be developed from hot air. It has to have substance, and that substance can only come from sharply increased consumer buying.



Fourth Quarter Importance

The importance of developments in the current quarter as a guide to the coming year cannot be overemphasized. If consumers continue "standoffish", one probably can write off 1962 as a year of no more than moderate business improvement with the possibility of some slackening in the second half.

If, on the other hand, consumer spending quickens more than seasonally, and consumers begin to step up their use of instalment credit, there is a good possibility that general business activity will rise steadily through next year although late-year levels of activity may be moderately below the Washington goal.

Unquestionably, this may seem to be putting altogether too much emphasis on consumer attitudes in the next 10 weeks or so. *However, from the standpoint of timing, we now are in a crucial area.*

• On the basis of historical consumer behavior in periods of business upturn following recessions, the coming weeks will tell whether consumers have been behaving normally, that is, deferring sharp expansion in spending and in the use of consumer credit until seven or eight months after the bottoming out of business recession and subsequent upturn. Or whether, as has been rather widely asserted recently, there has been a profound change in consumer attitudes of a somewhat permanent nature, with emphasis on saving rather than spending.

Expecting Too Much

• Some business analysts maintain that, in expecting consumer spending and retail sales to improve along with some of the other measures of business activity in recent months, we have been expecting too much too soon.

• There is statistical evidence that, although retail sales in the postwar period have tended to bottom out earlier and turn up earlier in recessions than general business activity, sales in 1954 and again in 1958 did not register any sustained improvement until months later, in the fourth quarter of both years.

• Instalment credit data indicate that, for some six to eight months after the bottoming out of a recession, consumers continue to liquidate a portion of their outstanding instalment indebtedness by restraining their new borrowings and repaying more on past indebtedness than they are borrowing currently. Then, and only then, do they "take off" on a new instalment buying spree which may continue for anywhere from eighteen months to three years.

• Disappointment over the failure of retail sales and consumer instalment buying to expand earlier is attributed by these business analysts to the lack of understanding of the normal "lag" in consumer attitudes.

• It also is pointed out that the improvement in business activity last Spring was recognized very early by the business community whereas, in all previous periods of business recovery, the fact that business was on the mend was not recognized until months later when recovery had become widespread and consumer spending already had shown substantial improvement.

• Much of the consuming public, it is said, has little or no knowledge of the statistical data that are available to business men from governmental and other sources, and tends to base its ideas of whether business is improving upon the extent of unemployment. *While this tendency is quite understandable, the fact remains that unemployment normally continues high for a number of months after business recovery is well under way.*

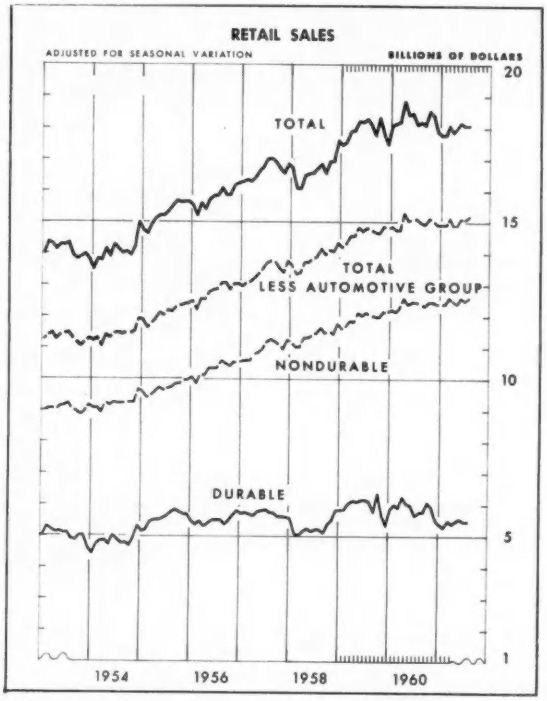
On the Other Hand

There is no denying the evidence of how consumers have behaved in previous periods of business recovery from recession and the possibility, if historical cyclical patterns are repeated, that we are on the eve of a pronounced upturn in consumer spending that could continue for many months.

• On the other hand, the possibility cannot be ignored that such upturn as may occur in consumer buying, particularly of durable goods, will prove to be somewhat feeble and of shorter duration than previous post-World War II cyclical upturns.

This is not 1949, 1954, or 1958. The tremendous pentup demand for goods, that existed at the end of the war, has been filled.

New family formations are in a declining phase and, it should be remembered, it is primarily the younger couples and younger families that need more goods of all kinds than the older families, and that are more inclined to use instalment credit to finance their purchases.



• Even though consumers have held down their new borrowings for a number of months, they still are carrying a mountainous load of instalment indebtedness. Total outstanding indebtedness of $42.6 billion at the end of August was equal to 14.3 percent of disposable income. Since many families do not use instalment credit, the percentage for those who do was substantially larger.

New Prestige Symbols

There is distinct evidence, as witnessed by the rising popularity of the more economical "compact" cars, that the American public is in process of changing its prestige symbols.

To a certain extent, this might be described as lessened desire for possessions and greater desire for the cultural.

Many families, who wanted the newest and biggest automobiles for example in the earlier postwar period, now prefer to keep their old cars longer and spend their money on vacations, including trips to Europe.

Another and most important cultural objective is sending the children to college. For many families, this is becoming an important prestige symbol.

Propensity to Save

The percentage of young people entering college has risen substantially in recent years and it is estimated that, within only a few years, 25 percent of those of college age will be in college.

The number of children per family is larger than it used to be. This in itself imposes a greater strain on parents who are trying to give their children the benefits of higher education.

On top of this, the cost of a college education has risen by leaps and bounds and is scheduled to continue to mount in the years ahead.

This means that, long long before a youngster even reaches high school age, his parents must begin to save regularly a fairly substantial portion of their income for his college education.

Those economists who have been puzzled over the increasing propensity of consumers to save more and spend less undoubtedly must be those who have no children in college or headed for college.

To an ever increasing extent, those parents who are planning financially for their children's future are "out of the market" for goods except for necessary replacement.

People Are Fed Up

Many consumers have become completely disgusted with the inferior quality and poor workmanship in so many types of durable goods. They have learned the hard way that, in numerous instances, beautiful finishes adorned with much chrome are merely the trappings for a "bunch of junk." They have found, in all too many cases, that manufacturers' claims of high quality and good performance are meaningless and that so-called "guarantees" are merely so much paper.

This is a severe indictment of American manufacturers. In all fairness, it must be said that there are producers who never have let down the bars and who are turning out quality merchandise. Also, there seems to be a concerted effort, on the part of some who slipped badly in the earlier postwar years, to improve the quality of their products.

However, there still is too much shoddy merchandise being turned out, and *(Please turn to page 154)*

Inside Washington

BY "VERITAS"

WASHINGTON SEES:

Egyptian President Gamal Abdel Nasser's ambitious dream of a Pan-Arabic empire under his domination is now definitely ended. The successful Syrian revolt against his dictation has completely shattered any prestige he may have had from one end of the Mediterranean to the other.

Russian diplomatic recognition of Syria may even omen the withdrawal of further military and economic aid to the Egyptian strong man. Diplomatic recognition of Syria by the United States will further damage him, especially in Algeria and Tunisia — two main objectives in his plan to create a solid United Arab Republic.

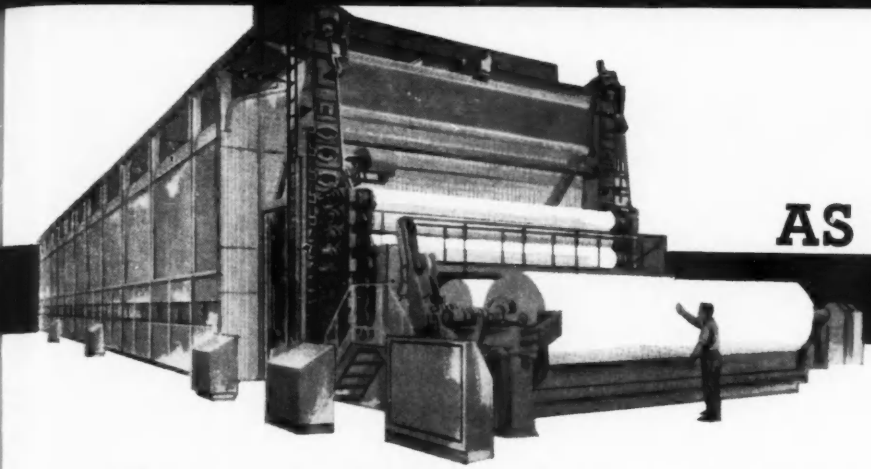
Nasser's two weaknesses sprang from the decline of the Syrian economy and the unreliability of the Egyptian Army. The Syrians, fully aware that they were being milked of valuable resources by the Egyptians, simply decided to "throw the rascals out."

His quick withdrawal of military forces (primarily paratroopers) was necessitated by the fact that his fighting forces are not fighters. Experts here do not rate the Egyptian Army highly; they find them unwilling to face real gunfire, and serving primarily because military service means three square meals a day, adequate shelter and privileges not available in the civilian life of a not-too-healthy economy.

Nasser will very possibly be obliged to limit his activities to Egypt itself if he is to hold his place at this time, for the rupture with Syria will undoubtedly strengthen the opposition. There is the possibility too that the oil industry in both England and the United States may benefit from Nasser's decline and from Russia's discomfiture over a rightest coup, which the latter tried to hide by swiftly recognizing the new regime. Nasser has long been antagonistic to the oil companies, and Russia has earned Arab animosity by undercutting prices and disrupting markets for Middle East oil.

NEW JERSEY'S November 7 Gubernatorial election is drawing close attention here and is of considerable worry to Democratic Party chieftains, including the man in the White House. Grapevine from national headquarters of the Democrats is that GOP candidate, former Labor Secretary James P. Mitchell, despite the handicap of crutches, is running way ahead of the Democratic nominee, former State Superior Court Judge Richard J. Hughes. Democratic fears are that a Mitchell victory will "start a trend" that would carve the Garden State's Democratic House representation—now six—by as many as three seats. Deeper in the background, from the Democratic National Committee's viewpoint, is fear that a substantial Mitchell victory in New Jersey will start the snow-ball rolling and spark other Republican successes in the 1962 Congressional campaigns. Educated guesses here are that the fear is fully justified.

SENATE rules revision (primarily Rule XXII, which presently makes it almost impossible to invoke cloture), "ditched" in the closing days of the last Session, will be to the fore early next year, only to lie on the table until the closing days when it again will be passed over to another year. Even the most ardent proponents of change—both in and out of the Senate—are agreed that it is next to impossible. In the whole history of Senate filibusters it cannot be found that they have proven detrimental to desirable legislation; on the contrary the records pretty clearly demonstrate that unlimited debate has often killed harmful legislation. Southern opponents of the anti-filibuster rule, as the liberals would write it, have made a strong point in their argument that present laws are adequate to the protection of civil rights—that objective of the change now is to alter the national economy; put more Socialist legislation on the books. Oddly, some of those who have been in the forefront for modifying Rule XXII are beginning to be in agreement with their Southern colleagues.



AS WE GO TO PRESS

Rayburn's Absence From Capitol Hill Next Year Will Seriously Hamper New Frontiers Legislative Program. The Democratic Party of the House simply lacks a leader of the ability that was Rayburn's. Even the Party of the opposition is in agreement that "Mr. Sam" was perhaps the most adroit politician of all time. He could get legislation through the House when even members of his own Party privately declared it "impossible." He never used a threat, only persuasion and as a skilled parliamentarian he could maneuver the "toughies" before the House with a minimum of friction, never leaving lasting scars on those who crossed him.

The selection of an able successor to the veteran Speaker even now poses a grave problem for the White House as well as for the Democrats of the House. It is something that will have serious consideration over the scant two months before the next Session. Washington guesses on the final choice are "a dime a dozen," most of them qualified with the frank acknowledgment that Democratic leadership of the caliber necessary to handle next year's unfinished business "is simply not in sight at the moment."

Seemingly having greatest momentary support among his Democratic colleagues is Rep. John W. McCormack (Mass.), Majority Floor Leader, and speaker pro-tem in Rayburn's absence. It is believed, however that the Administration will offer back-stage opposition because the Massachusetts legislator displayed considerable ineptitude in handling Administration bills as the Session drew to a close. Also, McCormack once sharply disagreed with the President on the issue of aid for parochial schools, as well as for public schools. The measure never cleared the House Rules Committee, and there is some belief that McCormack's stand that the religious educational institutions be included, has relegated him to the Kennedy doghouse. It will be an "issue" next year, but even serious consideration is doubtful.

Nixon's Prospects Down-Graded In Washington. Despite adjournment of Congress a few California political wiseacres — of both Parties — are in the Capital City; some of whom will wager large odds that former governor Goodwin Knight will eliminate Mr. Nixon in the primary. On another GOP angle, you can get assurance here that former President Eisenhower is definitely the "brains" of the Republican Party, despite Nixon's position as titular head.

Oil And Natural Gas Well Depletion Allowances May Be Trimmed in Next Congressional Session. This is due to fact that Speaker Sam Rayburn will no longer be on Capitol Hill. The Texan, always a foe of any reduction, managed to hold the Way & Means Committee "in line," so much so that no bill has even come out for Floor consideration. During the last Session, however, proponents of depletion showed considerable strength within the 25-man tax-writing group and at one point were within two votes of forcing the Committee to seriously debate the issue. The present Chairman, Rep. Wilbur D. Mills, of Arkansas, has "carried the ball" for Rayburn in Committee. If Mills should become the next Speaker of the House, and he presently has a fighting chance, he would automatically leave Ways & Means, increasing the possibility of a favorable report for reduction. Vice President Lyndon B. Johnson, when Majority Leader of the Senate, successfully fended off efforts in that body, but now that he has moved up

from the Floor and is burdened with personal diplomacy for the President, may find himself ineffective insofar as the depletion issue might develop.

No General Steel Price Advance Anticipated Here. There is a confident feeling in upper government echelons that there will be increases only in certain specialty categories, but not "too heavy," and these maybe not before the end of the year. Authoritative Washington sources seem positive on this score, pointing up that management — by holding the line as closely as possible — will have much to gain in public esteem, and have a much stronger bargaining position when contract negotiations with the union open next year.

Rail Labor-Management Relations Move Into Critical Stage, With Answer Several Weeks Away. The Special Presidential Study Commission on rail labor work rules (featherbedding in simpler language) has ended the hearing stage of its proceedings, begun earlier this year. Confronting the 15-man group are some 7 million words of testimony and countless charts and graphs. Deadline for findings and recommendations is December 1, with privilege of a 90-day extension if mutually agreed to by labor and management. The five public members have no say-so on the extension, but will accede to demands for further study.

During the protracted proceedings, both sides — labor and management — have been pretty close to adamant in their respective positions. Public members of the Commission have been rather close-lipped in their views, but a few "leaks" would indicate they may side with the carriers. To be borne in mind is fact that the advisory group's recommendations are binding on neither party. Only acceptance by both sides, or national legislation, can effectuate any recommendations which may emerge. In the meanwhile, Sen. John L. McClellan (D. Ark.) in the closing days of Congress, introduced legislation to bar strikes in the transportation industry (any sector). Odds against passage are heavy unless the rail unions completely ignore or vigorously protest the Commission's findings and recommendations.

LOOKING AHEAD

Barring war, reassembly of the Second Session of the 87th Congress is only 54 days in the future — just two days short of eight weeks. Piled up for consideration and several pieces of New Frontiers legislation, passage of which could damage the nation's economy, swing us closer to a powerful Socialist-dominated Washington bureaucracy with States' rights — even individual rights — items for history. The only bright gleam in the dismal picture is that the New Frontiersmen will not have the loyal and unflagging support of Speaker Rayburn, whose loyalty often surpassed his own conviction.

Taxes: Traveling at his present spendthrift rate, the President will have to ask an increase in taxes — certainly will have to ask a hike in the debt ceiling. Either of which would be dangerously inflationary.

Aid To Education: Federal assistance to the States and Cities for classroom construction and teachers' pay is to be brought up, but will probably fail.

Minimum Wage: There will be efforts toward expansion of coverage but it will fail — definitely.

Medicare Through Social Security: This has a 50-50 chance, perhaps slightly less. It will be an early "must" in the President's State of the Union Message to Congress, but opposition from outside sources, as well as in Congress, may prove too powerful.

Defense Spending: This will go up, but with Congress taking a bigger hand in the allocation of funds — perhaps a great deal more for the Polaris equipped subs, and continued insistence on speeding the B-70 supersonic bomber plane.

Automation: Administration's proposal for funds to provide retraining for workers displaced by new production methods, as well as increased unemployment compensation during the training period — stymied in the just-ended Session of Congress — will have slow going. Congress still feels the job is one for organized labor and management — not one for all the taxpayers.

1. *Bermuda*
2. *Bahamas*
3. *West Indies*
4. *British Honduras*
5. *British Guiana*
6. *Falkland Is.*
7. *Tristan Da Cunha*

COMMONWEALTH DEPENDENCIES NOW UNDERGOING CHANGE

8. *St. Helena*
9. *Ascension*
10. *Sierra Leone*
11. *Gambia*
12. *Gibraltar*
13. *Malta*
14. *Persian Gulf Shiekdoms*
15. *Aden*
16. *Uganda*
17. *Tanganyika*
18. *Rhodesias & Nyasaland*
19. *South-West Africa*
20. *Bechuanaland*
21. *Basutoland*
22. *Swaziland*
23. *Zanzibar*
24. *Kenya*
25. *Seychelles*
26. *Maldive Is.*
27. *Mauritius*
28. *Singapore*
29. *Hong Kong*
30. *British N. Borneo*
31. *Sarawak*
32. *Papua (Aus.)*
33. *Western Pacific Is.*
34. *N.E. New Guinea (Aus.)*

BRITAIN'S AGONIZING REAPPRAISAL and DECISION

—*Effect on Commonwealth of Britain's entry into EEC*

By W. E. GREENING

- **Reaction by the various Dominions to the likely shift of Britain's traditional Commonwealth system of preferential tariffs**
- **Difference in status between larger Dominions and the natural resource countries among the smaller Dominions facing new competition from Western Europe**
- **Changes in trade position of the Dominions in past decade — and the outlook**

AFTER a long hesitation and much debate, it is now clearly established that the British Government has made the vital decision to enter the European Economic Community (EEC). Prime Minister Macmillan has already won support for this realignment from the House of Commons, and specific negotiations have been held with the governments of France, West Germany, Italy and other Western European countries concerning her entrance into the European Common Market.

This startling reversal in Britain's traditional economic orientation is a result of another one of those agonizing reappraisals that the harsh realities of the post-war epoch have forced upon so many countries.

There is no doubt that the scheduled entry of

Britain into EEC will have far-reaching effects on the patterns of British external trade and, especially, upon her trade relations with the other regions of the British Commonwealth, including Canada, Australia, New Zealand, India, Pakistan, Ceylon, the Malay States and the new Dominions and dependent territories in Africa and the islands in the British West Indies. These territories represent a vast aggregation of population and internal resources and the exports and imports from a considerable proportion of world trading operations.

It is quite understandable that the Governments of the British Dominions should be concerned about the alignment the Macmillan Administration in London is preparing to inaugurate with those Western European countries which are already members of the European Common Market. The larger Dominions, such as Canada and Australia, have small populations in proportion to their size and economic development, and are vitally dependent on a high level of export trade for their national prosperity and economic well being.

The same thing is true, although for different reasons, for the Dominions and dependent territories in the tropical regions of the world, such as Asia and Africa. These countries are very largely dependent for their income on the sale of a few natural products, such as sugar, rubber, jute, rice and tea, in the markets of the highly industrialized countries, notably the United Kingdom and the United States.

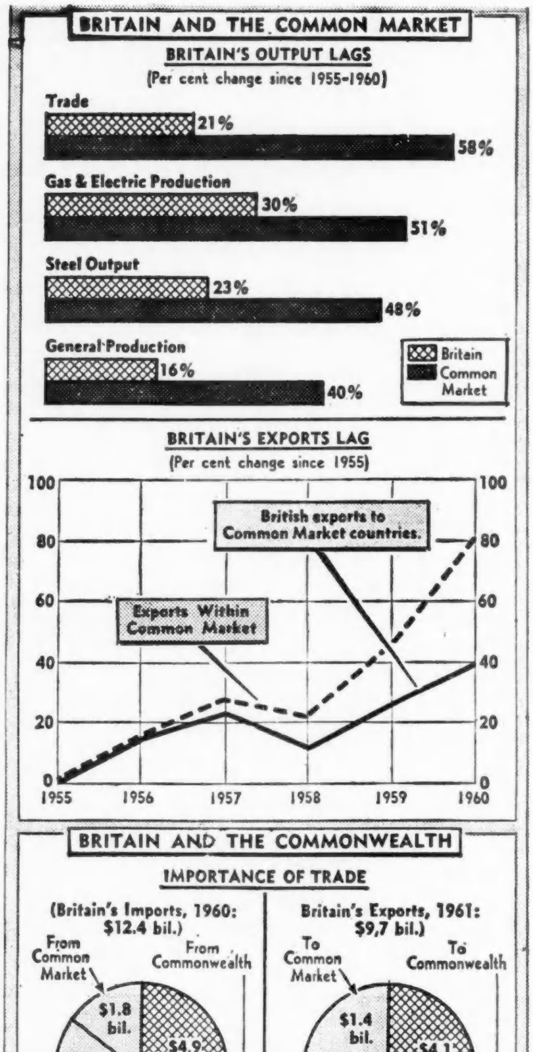
Loosening of Commonwealth Trade Ties Threatened

• Under the terms of the British Commonwealth system of preferential tariffs which was established at the Imperial Economic Conference at Ottawa in 1932, many, although not all, exports of raw materials, agricultural products and manufactured goods by the Dominions and dependent territories have enjoyed favored terms for entrance into the markets of the United Kingdom during the past three decades. And partly, although not entirely, because of these preferences, a large percentage of the foreign trade of some of these Commonwealth countries is still concentrated in this market. For example, during 1960, 90% of New Zealand's cheese exports, 94% of her meat exports and 89% of her butter exports—comprising a very substantial percentage of her total export trade—went to the United Kingdom. In the same year about 40% of the total export trade of Australia, including large quantities of wool, butter, livestock and beef, went to British markets.

• In the case of Canada, although the percentage of her total exports going to the United Kingdom is a good deal smaller, the mother country remains an important market for certain of her natural and farm products, including asbestos, nickel, wheat and cheese, and during the past two or three years Canadian exports of such manufactured products as aluminum wares, steel, newsprint, pulp and paper products to the United Kingdom market have experienced a notable increase.

The Impact

For a variety of different reasons, the Dominions are concerned about the loss of tariff preferences in



the United Kingdom market, for despite the changes in trade that have taken place, the Commonwealth members clearly consider these preferences well worth preserving. And, of course, under the arrangements by which the United Kingdom would enter the European Common Market, they would inevitably disappear.

An immediate cut of 30% or 40% (depending upon the date entry is effected) in British tariffs on European goods would be required—a sudden shock to the Commonwealth and to domestic British industry alike. The Dominions are also concerned about the tariff rates that would be set upon their natural resources and farm products thereafter entering the enlarged Common Market area. The vision of the unrestricted entrance of competing farm products from such Western European countries as France, Holland and Denmark into the United Kingdom, a very likely consequence of the current discussions, is also naturally disturbing to the Dominions.

Decline in Britain's Common Interest With the Dominions

But the United Kingdom now views this whole matter of trade relationships from a standpoint radically different from the majority of the members of the Commonwealth. In brief, it has decided that the neighboring countries of Western Europe offer greater economic opportunities from the long range point of view, despite some immediate pains in this realignment. For this reason it is apparently willing to abandon the tariff preferences which many classes of its own manufactured exports have enjoyed in the markets of various Commonwealth countries during the past several decades. In terms of total population this may look like a loss, but such thickly inhabited countries as India, Ceylon and some of the central African states remain largely underdeveloped and with very low purchasing power. Such European countries as France, West Germany, Italy and Belgium, on the other hand, offer rapidly growing markets and immediate participation in a noteworthy economic boom.

Already, during the past two decades, the importance of Commonwealth trade to the United Kingdom has been steadily declining. In spite of the existence of the tariff preference, the proportion of the United Kingdom exports going to the countries in the Commonwealth has declined from 40% to 25% in the twenty-year period between 1939 and 1959.

Misgivings by the Commonwealth

All of these questions and objections came strongly to the fore during the recent Commonwealth Conference at Accra, in the West African Dominion of Ghana (the former Gold Coast), at which representatives of the United Kingdom as well as of all the Dominions and dependent territories were present. These Commonwealth spokesmen, led by the Canadian delegation, took a strong stand in opposition to the entrance of the United Kingdom into the European Common Market unless the MacMillan government could *(Please turn to page 158)*

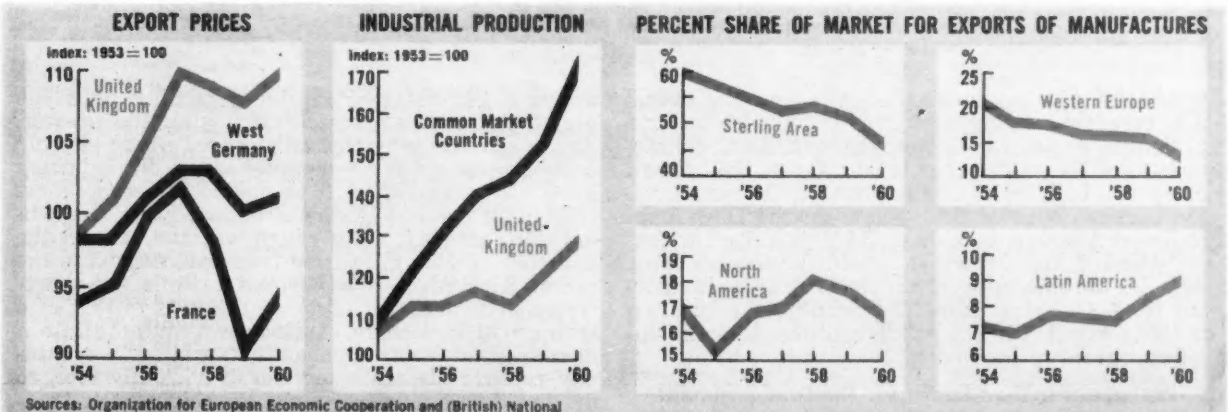
The British Balance of Payments

($ million: Inflow is +; Outflow is —)

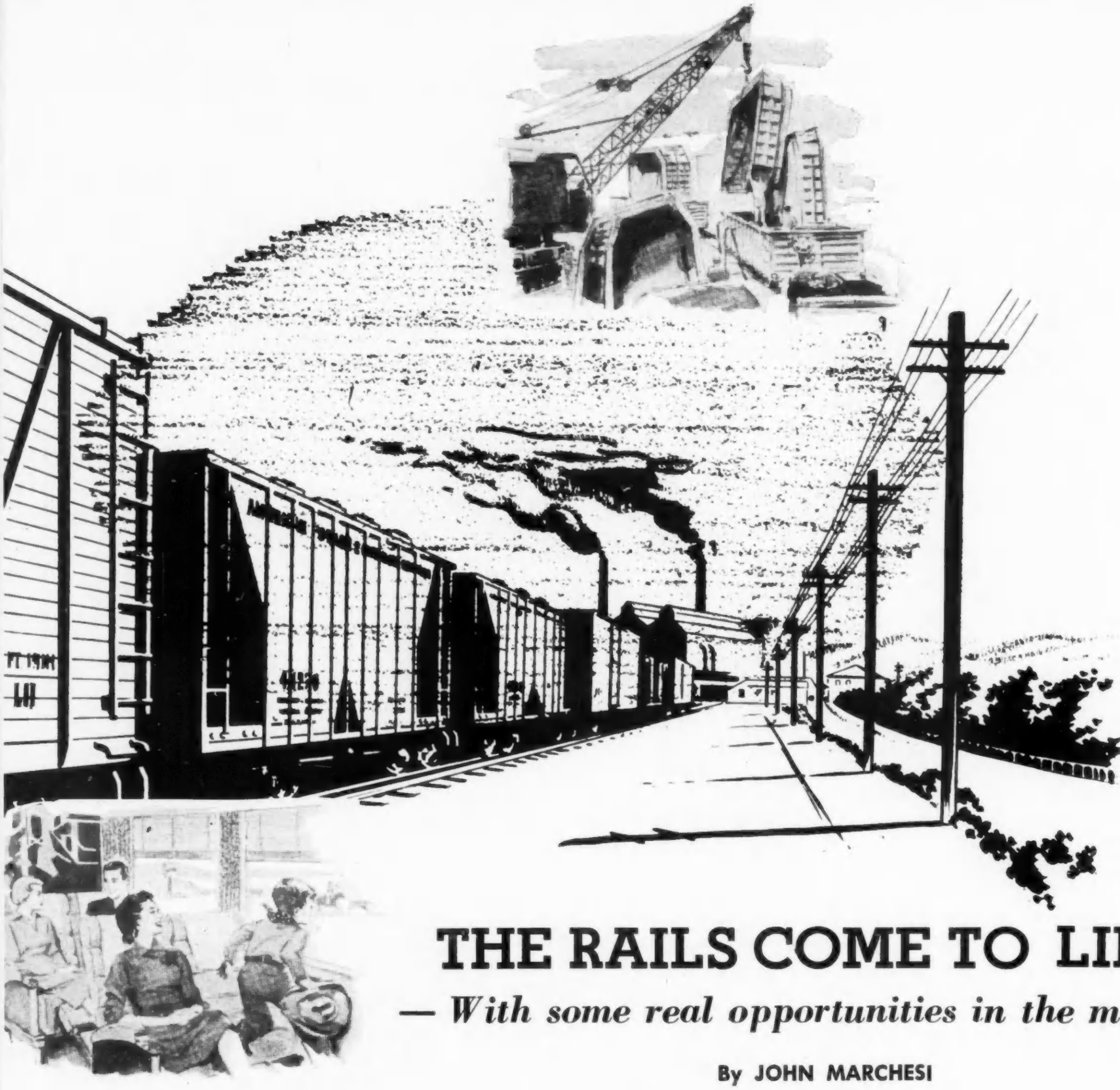
	1960	1961 (1st Qtr.) (Annual Rate)
Imports	—11,416	—11,704
Exports	+10,391	+11,054
Trade Balance	— 1,025	— 650
Government *	— 803	— 952
Shipping	— 70	
Investment Earnings	+ 501	+ 975
Other	+ 434	
Net Invisibles	+ 62	+ 23
Current Balance	— 963	— 627
Long-Term Capital Movements	— 563	+ 392
Current and Long-Term Capital Balance	— 1,526	— 235
Short-Term Capital Movements **	+ 2,459	— 650
Transactions with Non-Territorial Organizations ***	— 437	+ 45
Net Short-Term Capital Movements	+ 2,022	— 605
Change in Reserves	+ 496	— 840

*—Mostly military.
**—Sum of changes in overseas sterling holdings, balancing item, and miscellaneous short-term capital movements.
***—Principally International Monetary Fund.

Trends In Prices And Production Affect British Share of Exports



Sources: Organization for European Economic Cooperation and (British) National Institute of Economic and Social Research



THE RAILS COME TO LIFE

— *With some real opportunities in the making*

By JOHN MARCHESI

- **How vigorous is the rise — the technical and fundamental positions analyzed — the industries upon which good business in the fourth quarter depends**
- **What is being done to solve costs — realistic possibility in a labor pact — what contribution from Washington**
- **Position of the various classes of railroad stocks and the individual rails — those in the best position — where possibilities now exist — those still likely to lag**

RAILROAD stocks startled the financial world recently, coming back into prominence after a prolonged period of market lethargy. As is characteristic of the group when it is in favor, the upward move was both swift and impressive. On October 4, the carriers spurted 5.40 points on the Dow-Jones Railroad Average, tacking on 3.7% in value for that day alone! Many a startled investor has been asking, why did the rails suddenly erupt back to such vigorous life? And even more significantly, the question is being asked, will the group continue to make upside progress in the market?

Explanations: The Chartist vs. The Fundamentalist

Turning first to the question of why it did happen, one will get different replies depending upon the philosophy of the "expert" supplying the answer. Ask a *chartist* why the rails moved up so sharply and be prepared for something along the following line. "Compression" will be one of the terms most frequently invoked by the technician when describing the narrow trading range which contained the rails for roughly the period from mid-August to the end of September. If he invokes a simile, the chartist may compare the action of the rails to that of a spring which is being continuously squeezed into a narrower container. Just as the spring will eventually rupture the container and fly violently free, so did the rails finally break out of their narrow trading range and they will continue to run free until

Statistical Position of Leading Railroads

	Gross Revenues 1st 8 Months —(Millions)— 1960	1961	Percent-age Change %	Operating Ratio Full Year 1960	1st 8 Months 1961	Net Per Share * Full Year 1960	1st 8 Months 1961	Indi-cated Div. 1961†	Recent Price	Div. Yield
Atchison, Top. & Santa Fe	$414.1	$402.1	— 2.9%	78.5%	77.1%	$1.87	$1.05	$1.45	27	5.3%
Atlantic Coast Line	111.8	107.1	— 4.2	80.4	79.5	4.02	1.95	2.00	44	4.5
Baltimore & Ohio	262.8	225.2	—14.3	82.2	88.1	.08	d9.75	.80	33	2.4
Chesapeake & Ohio	232.4	199.4	—14.2	77.1	84.2	5.15	1.83	4.00	59	6.7
Chic., Milw., St. P & Pac.	153.0	144.7	— 5.4	81.6	81.0	d .60	d1.00	—	18	—
Chicago & Northwestern	138.8	145.4	+ 4.5	86.2	81.5	d14.45	d1.87	—	25	—
Chic., Rock Island & Pac.	146.6	139.4	— 4.9	81.6	77.4[4]	d .60	1.39	1.60	26	6.1
Del. & Hudson	29.6	27.2	— 8.1	81.5	81.3	1.91	.37	1.40	18	7.7
Denver & Rio Grande W.	51.0	49.5	— 2.9	66.2	68.4[1]	1.36	.78	1.00	22	4.5
Erie-Lackawanna R. R.	148.8	137.1	— 7.8	88.1	93.5	d4.39	d4.75	—	5	—
Great Northern Ry.	161.0	150.6	— 6.4	78.9	83.1	3.41	1.44	3.00	46	6.5
Gulf, Mobile & Ohio	51.2	50.9	—	79.1	75.9	.92	1.41	1.50	26	5.7
Illinois Central	172.6	163.5	— 5.2	81.1	80.3	3.56	2.29	2.00	47	4.2
Kansas City Southern Sys.	45.9	42.6	— 7.1	59.8	62.5	8.07	4.60	4.00	83	4.8
Lehigh Valley	34.8	28.9	—16.9	91.4	98.3	d2.14	d4.41	—	5	—
Louisville & Nashville	151.4	146.8	— 3.0	81.9	78.7	4.28	2.49	3.00	58	5.1
Missouri-Kan.-Tex.	38.8	38.0	—	75.6	75.3	d2.16	NA	—	4	—
Missouri Pacific "A"	201.2	193.5	— 3.8	76.7	73.7	6.32	3.44	2.40	47	5.1
New York Central	457.0	394.7	—13.6	84.0	89.9[1]	.16	d4.01	—	19	—
N. Y. Chicago & St. Louis	101.3	85.5	—15.5	71.7	76.0	2.87	1.28	2.00	42	4.7
N. Y., N. H. & Hartford	90.7	83.0	— 8.4	90.3	99.8[1]	d15.90	d15.47	—	2	—
Norfolk & Western	165.2	155.7	— 5.7	59.7	58.8	8.15	4.65	5.00	106	4.7
Northern Pacific	116.8	108.8	— 6.9	84.5	87.9	3.10	1.48	2.20	44	5.0
Pennsylvania	601.6	528.6	—12.1	82.8	85.5	d .59	d1.05	.25	15	1.6
Reading	70.7	63.6	—10.0	83.3	91.7	d1.17	d .64	—	11	—
St. Louis-San Francisco	87.1	82.9	— 4.8	78.5	79.0[1]	2.61	.86	1.00	19	5.2
Seaboard Air Line	107.8	103.9	— 3.7	78.7	78.7	3.10	1.44	1.60	31	5.1
Southern Pacific Sys.	518.4	509.5	— 1.7	79.1	75.4	1.75	1.69	1.20	28	4.2
Southern Railway	173.2	168.6	— 2.6	70.0	72.9	4.31	2.04	2.80	59	4.7
Union Pacific	325.8	323.1	— .8	72.8	73.3	2.73	1.66	1.60	36	4.4
Western Pacific	30.7[1]	30.1[1]	— 1.9[1]	79.7	76.2[1]	2.21	1.12[1]	1.00	27	3.6

*—Before funds.
†—Based on latest dividend rate.
d—Deficit.
NA—Not available.
1—1st 7 months.

Atchison: Earning power of this strong transcontinental system is on the comeback trail. Dividends, including extra, are secure. **A1**

Atlantic Coast Line: This profitable railroad is drawing close to union with the Seaboard. Actual merger could occur in 1962, if ICC gives the green light. Dividend secure. **B1**

Baltimore & Ohio: Merger with the C.&O. is being delayed, reflecting tough opposition from New York Central and the generally fluid consolidation pattern in the East. **C4**

Chesapeake & Ohio: Earning power of this financially strong system is not coming up to earlier expectations in 1961. Even so, the $4 annual dividend is regarded as secure. **A4**

Chicago, Milwaukee: This transcontinental railroad may well find a home as part of another system. Only token dividends are seen in 1961. **C4**

Chicago & Northwestern: This speculative railroad is on its way to a fairly good showing in 1961. No dividends in sight. **C1**

Chicago, Rock Island: The worst may be over and the current dividend could well hold despite slim coverage. **C3**

Delaware & Hudson: Despite a strong financial position, the recently reduced dividend could be in for another cut. **C4**

Denver & Rio Grande: One of the more efficient roads in the country, the dividend is secure. **A3**

Erie-Lackawanna: Hard pressed to stay solvent, the recently merged system needs a higher level of traffic to survive. **D4**

Great Northern: Drought conditions have pared 1961 earnings, but the $3 dividend is expected to hold, despite slim coverage. **A4**

Gulf, Mobile & Ohio: A potential merger candidate, earnings appear to be on the way back. **C3**

Illinois Central: This coal road is making an excellent earnings showing in 1961. Dividend quite secure. **B1**

Kansas City Southern: A good earner, this railroad serves a growing economy. Dividends may well be increased next year. **A1**

Lehigh Valley: This hard-pressed road will eventually be absorbed into the parent Pennsylvania system. **D4**

Louisville & Nashville: This railroad's fortunes have begun to improve and earnings are climbing again. Dividend secure. **B1**

Missouri-Kansas-Texas: This small carrier is solving difficult financial and operating problems. No dividends in sight. **C1**

Missouri Pacific: Earning power has held up fairly well for this system and prospects appear to be improving. **C2**

New York Central: Earnings will improve sharply in the months ahead, but considerable problems remain to be solved. **C3**

New York, Chicago & St. Louis: Pending merger with Norfolk & Western, the shares of this company will rise and fall with those of the N.&W. The dividend is secure. **B2**

New Haven: Trustees are attempting to find out if the road can be reorganized. **D4**

Norfolk & Western: This highly profitable carrier has a good future and the dividend is secure. **A1**

Northern Pacific: After a slow start, earnings are picking up and will provide ample coverage for the dividend. **B3**

Pennsylvania: The principal attraction of these shares is their interest in Norfolk & Western. Someday, this road may head up an Eastern network spearheaded by its profitable affiliate. **D3**

Reading: A once proud system has seen its earning power wither away. No common dividends are in sight. **D3**

St. Louis-San Francisco: Sale of the company's interest in the Central of Georgia will improve a poor working capital position. **C2**

Seaboard Air Line: Considering the possibility of merger with Coast Line, these shares merit retention. **B2**

Southern Pacific: Extensive non-rail interests add to the appeal of this huge transportation system. **A1**

Southern Railway: The leading system in the South, a sharp earnings comeback may be seen in 1962. **A1**

Union Pacific: Long regarded as the premier situation in the rails, this oil-rich company retains its high status. **A1**

Western Pacific: This tiny railroad is the object of fighting among titans in the West. Outcome obscure. **B2**

RATINGS: **A—Best grade.** **B—Good grade.** **C—Speculative.** **D—Unattractive.** **1—Improved earnings trend.** **2—Sustained earnings trend.** **3—Earnings up from the lows.** **4—Lower earnings trend.**

the immediate pressure has been dissipated.

The *fundamentalist* would hardly talk in such terms when undertaking to explain why the carriers suddenly hit the market spotlight again, but would probably discuss more basic factors.

► First and foremost, the railroad earnings picture is beginning to brighten, following a long period of disappointing news. Based on preliminary figures, Class I net income amounted to $50 million in August of this year, up from only $30 million in the like 1960 month. August was, in fact, the third consecutive month of year-to-year improvement in railroad earning power, but it marked the first time that the gain occurred on slightly higher gross revenue than had been realized in the year before. Perhaps the real turn in rail fortunes is beginning, now that the revenue trend is moving upward.

Tangible Grounds for Optimism

With the railroad earnings picture starting to show some significant improvement, it is conceivable that investors are now beginning to pay more attention to situations where the dividend coverage has recently been none too impressive. Considering the large yields available on many individual rail stocks compared with most industrial and utility issues, it is easy to see why any turn for the better in the industry's fortunes should immediately provoke renewed interest in the group.

Finally, there is the feeling that the Government is at last going to "do something" for the railroads, particularly in the area of the passenger burden which is plaguing such a large segment of the group. Moreover, some quarters believe that the Government may even push labor into a more realistic attitude toward the abolition of "featherbedding" rules. And a large body of investment opinion believes that the I.C.C. will decide in favor of most, if not all, railroad merger proposals which reach its desk. Add together all these fundamental factors and there is reason enough to explain the resurgence in railroad securities.

To reach the most accurate explanation of the upswing in rail prices, it is probably wisest to combine the answers of both the chartists and the fundamentalists to arrive at a composite somewhat as follows: the rails started to move because the basic earnings picture was beginning to take on more hopeful signs.

Traders, in the meantime, had sensed that the timing was right to play the rails and had slowly been accumulating positions in these issues (the compression the chartist was talking about). With the rails naturally responding to the good economic news and the traders having siphoned off the floating supply in many individual cases, a sharp upside breakout was the logical consequence. *In a very real sense, it might be said that the play in the rails was born of fundamental factors, but heightened by technical considerations.*

Three Major Traffic Components: Autos, Steel and Coal

The question now is how much further will the rail uptrend carry, or is this the top of the rally? For some clues to the correct answer, a look at the fourth quarter outlook for certain key industries should be helpful. Favorable prospects for steel, autos and coal would go far to assure an improvement for the carrier group, since these three areas of the economy generate an important portion of all the traffic that the rails carry.

Autos—Turning first to the significant automobile picture, the view is clouded—as usual. New car sales are still at low ebb and if used as a barometer of automobile volume over the next twelve months, the outlook would be quite poor. Fortunately certain mitigating circumstances go far to explain away the recent disappointing pace of vehicle sales. • First, strike trouble, initially at General Motors and then at Ford, cut down the early supply of 1962 models. • Secondly, with the cleanup of 1961 models done at an orderly pace and no huge excess on hand, the dealers are under little incentive to make their usual give-away drives to clean out the old stock. • Third, the troubled international situation has undoubtedly restrained the consumer to some extent, although it is difficult to say how much.

On the other side of the coin, there exists a considerable potential for automobile sales which could make the 1962 model year the best one in quite some time. Other plus factors include an aging car population, an impressive level of disposable income and considerable untapped credit.

Steel—Assuming these elements of strength can be converted into automobile sales—as anticipated—the steel outlook takes on a considerably brighter hue, reflecting the importance of Detroit as a user of metals and other raw materials. With improved automotive demand and continuing recovery in other sectors of their demand curve, the steel people could produce and ship steel at a fairly impressive clip in the fourth quarter of 1961.

Coal—It naturally follows that more coal would be required for the steelmakers and other industrial users, particularly since stockpiles are at levels which might be considered to be low when the economy is humming along. Add in continued increases in takings from the nation's utilities and you get a much brighter outlook for coal than has existed for some time, particularly with the export market showing some small signs of revival.

► It's not going to be a one-way street for potential railroad volume in the fourth quarter, however, since the picture in *grain* and *ore* is not particularly promising. It is conceivable that stored grain may move in quantities sufficient to offset the loss of this year's crop in many drought-afflicted areas, but this is not likely to happen in iron ore. Even so, the overall railroad traffic picture for the fourth quarter is quite promising.

Good Control of Expenses Indicated

Assuming a favorable traffic and revenue outlook for the period immediately ahead, the further important question arises, how well will the railroads keep costs under control? Judging by the August experience of representative roads, prospects appear to favor continued tight rein over expenses.

The **Santa Fe,** for example, cut operating expenses 2.6% below those of the like month in 1960 while gross was scoring a year-to-year gain of 2.9%. Another western carrier, the **Western Pacific,** reduced operating expenditures 3.8% even while revenues were advancing 5.4%.

The hard-pressed Eastern carriers continued to pull their belts in as evidenced by the action of **New York Central,** which pared expenses 8.4% to counteract a 1.1% dip in receipts. **Baltimore & Ohio,** another ailing situation, *(Please turn to page 156)*

DISCOUNT SELLING REVOLUTIONIZING RETAIL STORE OPERATIONS

— *Some Major Moves*

By EDWIN CAREY

- **The changes taking place in marketing of consumer goods — will discounting be carried too far**
- **The various mergers in process and contemplated — the full story of the big Montgomery Ward-Interstate Department Stores merger — what's ahead**

THE bid by **Montgomery Ward** to acquire **Interstate Department Stores** is perhaps this year's biggest retail news item. It represents a major move to "join the enemy," as Interstate is now well-known for its successful invasion of the discount field; here is one leopard that managed to change its spots, and perhaps Ward would like to do the same.

And no wonder; the basic trend toward discounting has gained momentum this year as never before. For example, take the staggering gains made by Korvette. Sales in the fiscal year ending July 31, 1961, soared to $180 million and earnings to $3.07 a share versus sales of $105 million and earnings of $0.68 only three years ago. More than one distinguished department store executive expected the fad of discount houses to slow down in 1961, but the reverse has been true. It is estimated that sales of discount houses will increase by no less than 40% to $4.1 billion in 1961 from $2.9 billion in 1960. This volume is now becoming sizable compared with department stores, which have annual sales of about $14 billion.

It is obvious, of course, that this 40% gain would be more a transfer of business from other outlets rather than new sales; the joy is somebody else's headache. Indeed, the discount trend is changing the very appearance of Main St. The small specialty store operator has been hard hit and could in time become an extinct animal, or with luck a

rare one like the platypus. The department store bargain basement is also a casualty as its usual clientele increasingly favors the suburban discount house. Variety store executives are also fidgeting nervously as their budget-minded customers gravitate to the discount house. **Woolworth** now intends to set up a chain of discount houses under the name of Woolco with 18 discount stores planned as a starter. The retailer that is perhaps hardest hit by this trend is the third-rated department store in each community. The number one and often the number two stores apparently have not been greatly bothered by the discount house as they have a faithful clientele and their reputations in the community constitute a strong asset.

The Story of Interstate

Interstate Department Stores was formerly a drab operation with too many third-rated stores and a record through 1958 of sliding sales and declining profit margins. Management surveyed this situation in early 1959, and unlike many department store executives at the time, refused to place the blame on either the weather or the '58 recession. Basic trends were against Interstate, and it would have been some job to turn them around. Determined to row down stream rather than against the current, Interstate, in April, 1959, purchased White Front Stores, which owned two discount houses in California. Before many more months had passed, Interstate, now moving decisively, had closed several unprofitable department stores and purchased Topps Stores, a ten-store discount chain in the Northeast and in Illinois. Next a new discount chain under the name of Family Fair was begun. Now, 21 of its 63 stores are discount stores and next year's plans call for the addition of 20 more.

Results were dramatic under any manner of measurement. By the year ended January 31, 1961, Interstate's sales had climbed to $114.3 million from $65.7 million only two years earlier. Earnings more than doubled, hitting $1.4 million or $1.38 per share vs. $645,000 or $0.65 per share. For the current year a further earnings gain of 25% is predicted, with sales perhaps reaching $170 million. It is also noteworthy that for the first time in many years Interstate made a profit this year during the first half; thus, entry into discounting seems to have smoothed out some of the seasonal variation.

The Merger

Interstate's phenomenal success contrasts sharply with Ward's disappointing results; the latter's earnings last year declined to $1.07 per share from $2.28 the previous year, necessitating a dividend cut. The outlook for this year is not much better; at the half-way mark earnings were 26¢ vs. 34¢ last year. In terms of Montgomery Ward's volume (a record $1,248,934.000 last year) Interstate is small—only 9.3% of Ward's size—and any direct benefit to Ward in earnings per share from the merger would be small. (If Ward's earnings for the year ended February 1, 1961, were adjusted to include Interstate net, they would have been $1.09 per share instead of $1.07.)

Clearly the real reason for this merger is not immediate earnings benefit, but rather the acquisition of that priceless asset—good management. The Interstate team would certainly be a help to Ward, should the company decide to enter the discount business in a big way. The shortage of experienced merchandising executives has been a continual problem in recent years for all retailing organizations. For Montgomery Ward this problem has been serious indeed. Under the old Avery regime, literally hundreds of experienced personnel became discouraged and left. More recently some of the company's top men have also departed, including the president, Paul M. Hammaker.

If the Interstate merger becomes effective, S. W. Cantor, Interstate president, will become executive vice president and a director of Montgomery Ward. His principal task may be to instill some of the merchandising flare into the Ward management that is so typical of Interstate. This, of course, would be in the area of discount merchandising, really a skill in itself and certainly one area where Ward's abilities are non-existent. The big mail order and department store would then presumably continue to expand the discount operations and, like Interstate, perhaps close down some of its unprofitable conventional stores. Since Chairman Barr came into the Ward picture in 1955 he has added 52 new stores and 423 catalog offices to bring the total to 529 retail stores and 655 catalog offices. While most of the new stores are reasonably profitable, many of the established downtown stores showed disappointing results last year and this was largely responsible for the overall decline in earnings. Frequent markdowns which were necessary to remain competitive in these stores conflicted with high overhead costs—the result has been a continual squeeze on profit margins.

Of course, one of the principal requirements of a successful discount operation is very close cost control, and this ability, demonstrated in Interstate, should prove to be an important by-product of the merger for Ward. But good cost control, especially in a large department store, takes the imaginative cooperation of all personnel from the president down to the stock clerk. Ward evidently lost this spirit of cooperation years ago, and it cannot be regained overnight. At **Sears, Roebuck**, this type of cooperation is a part of tradition—a loyalty throughout the ranks that is more than simply a result of the profit-sharing plan that makes nearly all employees stockholders.

Will Discounting Be Carried Too Far?

Discounting is a method of mass merchandising that is likely to be with us for a long time. It is more than a fad; it is an economic fact of life. One department store executive even admitted recently that discount houses in time may become just as important in the total retail picture as the contemporary department store. But even so, the discounter's fortunes are not entirely rosy. His profit on every dollar of sales is minute, and it is imperative that he obtain a high volume of sales merely to break even, and a higher volume still, to earn a fair return on his invested capital. Thus, price cutting between discount houses can be damaging—but what they really fear most is loss of volume. In New York, Philadelphia, parts of New Jersey and Long Island, competition between discount houses has become severe, reducing the fruits of labor and capital as everybody tries to increase his volume. The big operators are wisely avoiding these markets, centering their attention on the Middle West and South. Other competitive areas may also soon

Statistics on 14 Leading Department Stores

	1st 6 Months: Net Sales 1960 (Millions)	Net Sales 1961 (Millions)	Net Profit Margin 1960 %	Net Profit Margin 1961 %	Net Per Share 1960	Net Per Share 1961	Full Year: Earned Per Share 1959	Earned Per Share 1960	Cash Earn. Per Share 1960	Indic. 1961 Div. Per Share *	Price Range 1960-61	Recent Price	Div. Yield %
ALLIED STORES .... W.C. (mil.) '59–$145.9; '60–$142.9	$291.6	$299.6	.1%	.3%	$.01	$.26	$5.17	$3.71	$6.65	$3.00	64½-41½	60	5.0%
ASSOCIATED DRY GOODS ... W.C. (mil.) '59–$77.2; '60–$92.2	123.8	133.8	1.8	1.8	1.10	1.13	4.78	4.60	6.67	2.50	92¾-56¼	92	2.7
BEST & CO. .... W.C. (mil.) '59–$11.9; '60–$12.2	18.5	21.4	2.4	2.1	.76	.79	2.88	2.47	3.41	2.00	41¾-30¾	41	4.8
CITY STORES .... W.C. (mil.) '59–$60.4; '60–$59.2	118.8	116.9	d.3	d.6	d.15	d.27	1.03	.68	2.02	.60[2]	18 -11⅞	12	5.0
FEDERATED DEP'T. STORES ... W.C. (mil.) '59–$157.5; '60–$164.9	341.0	360.5	2.9	3.0	.58	.65	1.98	1.92	2.49	1.10	52¼-30⅜	51	2.1
GIMBEL BROS. .... W.C. (mil.) '59–$62.9; '60–$66.5	178.0	182.8	1.2	1.3	1.02	1.19	4.82	4.55	7.67	2.20	82¼-50½	81	2.7
INTERSTATE DEP'T. STORES .... W.C. (mil.) '59–$13.6; '60–$12.8	43.5	66.6	d.2	.1	d.12	.06	1.37	1.33	2.16	.50	40⅝-11¼	34	1.4
MACY (R. H.) & CO. .... W.C. (mil.) '59–$67.5; '60–$74.8	396.1[3]	405.3[3]	1.9	1.9	3.74[3]	3.60[3]	3.76[4]	4.07[4]	6.87[4]	2.00	65⅝-37¾	65	3.0
MARSHALL FIELD & CO. .... W.C. (mil.) '59–$62.9; '60–$66.5	98.4	99.5	2.0	2.1	.48	.52	2.25	2.20	3.26	1.40	43 -27⅜	41	3.4
MAY DEP'T. STORES .... W.C. (mil.) '59–$218.0; '60–$171.1	298.0	308.1	1.6	1.4	.61	.55	3.28	3.11	4.72	2.20	58⅝-40¼	58	3.7
MERCANTILE STORES .... W.C. (mil.) '59–$32.8; '60–$34.5	71.9	73.0	1.4	1.3	.70	.68	3.38	3.16	4.89	1.65	44½-30⅜	44	3.7
MONTGOMERY WARD & CO. . W.C. (mil.) '59–$541.0; '60–$490.1	567.3	593.6	.8	.6	.34	.26	2.28	1.07	1.82	1.00	53⅜-25½	31	3.2
PENNEY (J. C.) CO. .... W.C. (mil.) '59–$541.0; '60–$490.1	609.3	634.1	2.7	2.8	.67	.73	2.09	1.82	2.33	1.50	49¾-37⅛	47	3.1
SEARS, ROEBUCK & CO. .... W.C. (mil.) '59–$1,200.0; '60–$1,262.7	1,904.1	1,929.8	3.7	3.9	.97	1.00	2.64	2.55	3.01	1.40	72⅝-44½	72	1.9

*—Based on latest dividend rate.
W.C.—Working capital.
d—Deficit.

1—Plus stock.
2—Includes quarterly optional payment in cash or stock.
3—39 weeks ending April 30.
4—Year ended July 31.

Allied Stores: Company is having some success in improving its unprofitable main stores. Entering discount business. **B2**
Associated Dry Goods: Earnings are growing by successful branching out from prime-rated stores. **A1**
Best & Co.: Acquisition of Grand Apparel Stores will increase sales to about $50 million from $42.8 million in 1960, and will help earnings. **B1**
City Stores: Entering discount business; increasing self-service. Greenfield interest over 73% of stock. **C3**
Federated Dept. Stores: Continues growth trend with successful expansion. Opening profitable "twig" stores—branching from main stores. **A1**
Gimbel Bros.: Benefiting from large branches recently opened; more planned. **A1**
Interstate Dept. Stores: Remarkable growth in two years resulting from entry into discount business. Considering merger with Montgomery Ward. **B1**
R. H. Macy & Co.: Introduction of credit important. Several large branch stores to open soon. More planned. **A1**
Marshall Field: Seattle store and new branches showing better volume and profit margins; prospects good for active Christmas sales. **A1**
May Dept. Stores: One of the larger department store organizations. Company is benefiting from new economies as well as large branches opened late in 1960. **A2**
Mercantile Stores: Modernization of old stores and new units should enable earnings to recover from last year's modest setback. **B1**
Montgomery Ward: Initial costs of new stores continue to be burdensome. Earnings outlook remains cloudy. **B2**
J. C. Penney: Upgrading merchandise lines and expanding credit to more stores should help 1961 results. **A1**
Sears, Roebuck: Aggressive expansions continue as new ventures feature its 75th year. **A1**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from the lows. 4—Lower earnings trend.

be developed.

Discounting now covers virtually every type of merchandise. Ready-to-wear is becoming increasingly important. **Spartans Industries**, for years a manufacturer of inexpensive clothing for women and children, has 25 discount stores under construction for opening in time for this year's Christmas season. Next year a minimum of 30 more are planned. These will not be small stores; they are supposed to do an annual volume of $4.0 million each. This is real integration—from piece goods cutting to the "plain pipe rack." There are some ruffled feelings: the faithful department store—once a customer now a competitor, the wholesaler who is now out of the picture; but discounting has had to revolutionize old relationships.

Department Stores Take Action

Theodore Schlesinger, president of **Allied Stores**, once said wishfully that the fad of discounting would probably wear off gradually and that some loss in volume is all that is needed to make the profits of the low-margin discount operation vanish. This possibility is a genuine risk for the discounter, but department store executives are still hopefully waiting for it to happen.

Meanwhile, Allied is not going to just stand by to see if this theory proves correct. Recently it set up the Almart Stores Division to develop discount units. Peck's in Kansas City, a third rate department store in its community and on the downgrade, was converted to a discount house as a beginning move. Other department store operators who set up discount type operations staunchly deny they are discount houses. "This is different," says one. "We have an upstairs store atmosphere. It's an improved bargain basement, not a discount house."

Other stores are meeting the challenge of discount houses by attempting to increase the traffic in their main store, adding groceries, drugs, and other frequently purchased items, often by leased outlets.

One of these, **Vanderbilt Tire and Rubber**, has had remarkable success in the last year. This company, which operates leased tire and auto accessory sections in department stores, increased the number of such concessions to 40 from 24 a year ago. Leasing out departments to obtain the unusual has also increased department store traffic. **Chicago Bird & Cage**, for example, has more requests to open up pet departments in department stores than it can handle; only two years ago few of them would buy the idea. This may seem to be an odd way to combat the discount house, but anything that adds traffic to the department store is now apt to find a hearing.

Allied Stores has taken another measure. In the New York area it has hired the White Shield organization to set up door-to-door selling. Thus, the battle for sales is being carried right to the consumer's front door, where the salesmen will try to sell by catalog. The difficult here is that door-to-door selling requires a high commission for the salesmen, and there may be no slack in the department store mark-up for this. The merchandise certainly cannot be priced very much higher than the list prices in the stores. Other department store executives have, in fact, predicted failure for this experimental move. Allied feels it is at least worth a try. Certainly **Avon Products** has been highly successful in selling cosmetics door to door.

Are "Twigs" an Effective Counterattack?

Department stores have also evolved a new type of outlet known as the "twig." It is much smaller than the average branch store and specializes in limited lines such as appliances, shoes, or furniture. Few clerks are needed in the low-overhead operation and self-service or check-out systems are often applicable. Twigs are, in effect, limited-line discount houses that have the advantage of trading on the big department store's name. Sometimes the credit or charge system of the main store is used with little extra operating cost, and this gives them another advantage over the cash-and-carry discount house. (However a number of "old" discount houses are now offering credit.) The capital needed to start a twig is considerably less than for a branch store carrying a full line, yet the appeal of the discount house is very closely duplicated.

Federated Department Store's twig store in Milwaukee has apparently met with success as far as profits so, and the company plans to start another twig in Dayton, Ohio. **May Dept. Stores** has two twigs in the Baltimore area specializing in furniture and another in Youngstown, Ohio, specializing in teen-age goods. **City Stores** has two twigs in the Philadelphia area that concentrate on tires and auto accessories and another to open soon, specializing in shoes.

Twigs may prove to be part of the answer to the discounter. In any event they are helpful in enabling a department store to reach a small town or suburb where a full-blown branch is not justified.

Retail Sales Look Better

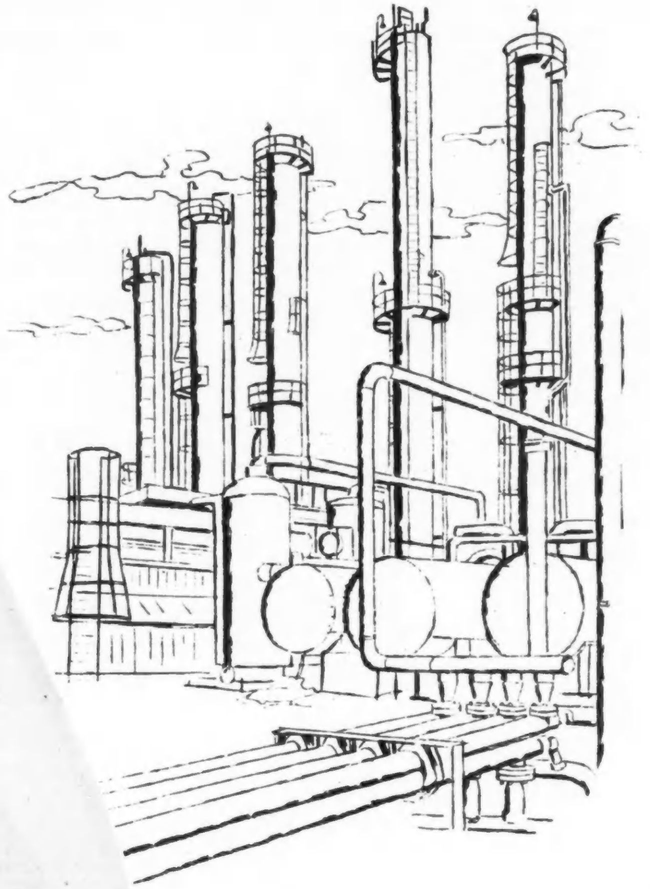
Despite the recession, department store sales in 1960 were actually ahead of 1959 by the small margin of 0.8%, according to the National Retail Merchants Association. Earnings were generally lower, however, because of frequent markdowns and poor weather during the crucial Easter and Christmas selling seasons. It is difficult to predict final results for the current year, since so much depends upon performance in the fourth quarter. Many department stores make as much as one-half of their earnings during the weeks prior to Christmas. It is encouraging, however, that through the end of September, department store sales were running 1% ahead of the same period a year ago. The Boston area reports one of the better gains, 5% ahead of last year; Kansas City, where Macy's has a big store, is 4% ahead. With fewer mark-downs, the better stores are showing improved profit margins over a year ago.

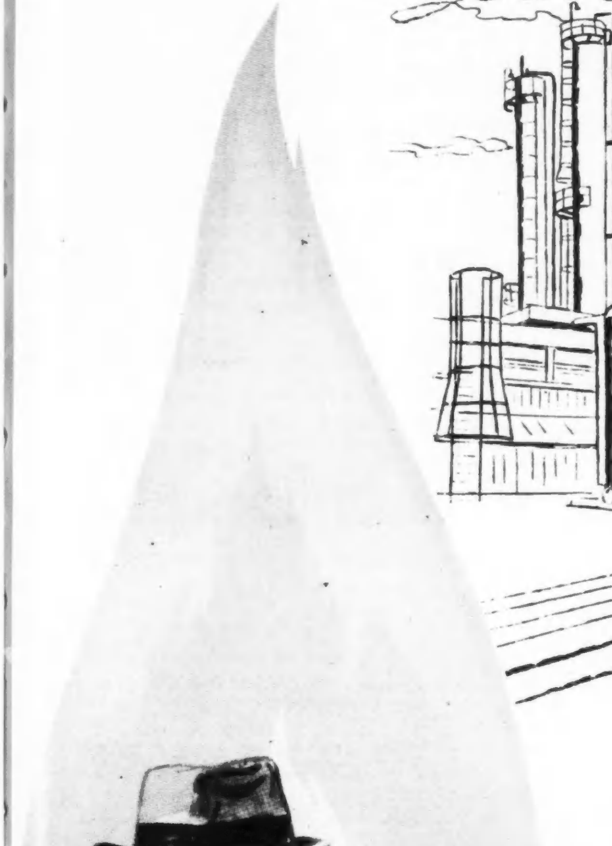
A Glance at the Individual Stores

Allied Stores (60). The problem of improving the profitability of eight or ten key downtown stores continues to be management's principal task. Many of them do not have the leading trade position in the community. Peck's in Kansas City was one such store which, with profit margins in a seemingly hopeless slide, was turned into a discount house. The Almart Division may be expected to set up more discount stores, and acquisition of a discount operation would not seem to be out of the question. The stock is reasonably priced, providing a 5% yield from the $3.00 dividend that has been maintained at this level for eleven years.

Associated Dry Goods (92). This company derives its strength from large, long-established stores that have a fine trade reputation, such as New York's Lord & Taylor. Its well conceived branches are sizable full-line stores in suburban areas. Having the advantage of trading upon the parent store's name and reputation, all have been profitable within a year after opening. Acquisition in April, 1961, of H & S Pogue, the long-established Cincinnati store, adds another strong retail position from which branching can begin. So far this retailer of quality and fashion merchandise is little concerned about competition from discount houses that emphasize cheaper lines. Thus, sustained growth has marked the company's record since 1951, and continuation of the trend seems a reasonable hope. From a 1950-52 average of $2.71 per share earnings, have climbed almost without interruption to a 1958-60 average of $4.60, with $5.00 thought to be a reasonable expectation for this year. Like many growth stocks it is not cheap relative to other retail situations; the stock currently yields 2.7% on the dividend of $2.50 and is selling at 18.5 times earnings.

Federated Department Stores (51). In its various acquisitions Federated has always insisted upon getting the leading store in each community. Chairman Fred Lazarus is a *(Please turn to page 159)*





THE FORTUNES OF THE NATURAL GAS INDUSTRY

By JOHN PINTARD

—Industry will need adequate reserves and rate of return to assure sound expansion—problems of pricing and competitive fuels—regulatory outlook under new FPC appointees—companies in best position.

THE natural gas industry has, in recent months, come under the purview of almost an entirely new group of regulators. For the investor who has impatiently awaited solution of the many problems that have faced the industry in recent years, it may indicate a period of rapid clarification. It must be recognized, however, that the Commissioners recently appointed by the Kennedy Administration have backgrounds which suggest that rulings will lean more toward providing a service to the consumer at the lowest possible price rather than balancing the interests of the purchaser, seller and investor. Despite this probable predilection, early rulings on a number of the long contested issues could restore

Statistical Summary of Natural Gas Companies

PIPE LINES (Some Production)

	Earnings Per Share Yearly 1959	1960	1st Quarter 1960	1961	Dividend Per Share 1960	Indicated 1961*	Price a Year Ago	Recent Price	Div. Yield	Price Earnings Ratio†	Price Range 1960-1961
El Paso Natural Gas	$1.33	$1.92	$1.08	$ .75	$1.10	$1.30	32	25	5.1%	13.0	30⅝-21¾
Mississipi River Fuel	2.44	2.30	1.22	1.12	1.60	1.60	33	38	4.2	16.5	42⅞-30
Northern Natural Gas	1.92	2.20	1.38	1.39	1.40	1.40	30	36	3.8	16.3	43 -26¾
Panhandle Eastern Pipe Line	3.49	3.05	1.59	1.89	1.80	1.80	44	43	4.1	14.1	56⅜-39⅜
Southern Natural Gas	1.85	2.20	1.11	1.38	2.00	2.00	38	41	4.8	18.6	47⅞-33⅜
Tennessee Gas Transmission	1.29	1.35	1.25[1]	1.40[1]	1.02	1.12	21	22	5.0	16.2	25⅛-20¼
Texas Eastern Transmission	.74	1.04	.92[2]	1.03[2]	.70	.80	15	17	4.5	16.3	20⅛-13⅛
Texas Gas Transmission	2.33	2.59	2.50[2]	2.45[2]	1.42	1.50	29	34	4.4	13.1	38⅝-29⅜
Transcontinental Gas P. L.	1.23	1.18	1.10[2]	1.24[2]	1.00[3]	1.00	20	22	4.5	18.6	24⅝-19¾
INTEGRATED COMPANIES											
American Natural Gas	1.82	1.97	1.91[2]	2.17[2]	1.04	1.20	34	47	2.5	23.8	49 -22⅛
Arkansas-Louisiana Gas	1.72	1.61	1.07	1.07	1.00	1.00	32	40	2.5	24.8	44⅞-29¼
Colorado Interstate Gas	1.71	1.96	1.17	1.19	1.25[3]	1.25	36	44	2.8	22.6	48 -31⅝
Columbia Gas System	1.35	1.51	1.00	1.12	1.02	1.10	20	29	3.7	19.2	29½-18¾
Consolidated Natural Gas	3.36	3.19	3.58	3.21	2.20	2.30	47	64	3.5	20.0	64½-42¼
Lone Star Gas	1.20	1.28	1.09	.98	.90	1.00	20	26	3.8	20.3	29 -17⅞
National Fuel Gas	1.74	1.86	1.22	1.20	1.20	1.20	22	29	4.1	16.1	30⅛-21⅝
Oklahoma Natural Gas	1.92	2.16	2.17[1]	1.99[1]	1.28	1.40	29	34	4.1	15.7	36⅞-24⅞
Peoples Gas Lt. & Coke	3.98	4.28	4.28[1]	4.47[1]	2.37	3.00	60	94	3.1	21.9	97½-54¾
United Gas Corp.	2.27	2.26	1.26	1.31	1.50	1.50	31	35	4.2	15.4	39 -27⅝
RETAIL DISTRIBUTORS											
Alabama Gas Corp.	1.85	2.45	2.79[2]	2.28[2]	1.60	1.60	30	34	4.7	13.8	35⅜-27⅛
Brooklyn Union Gas	1.67	1.75	1.08	1.10	1.20	1.20	28	41	2.9	23.3	44⅞-25
Laclede Gas Co.	1.10	1.55	3.66[2]	3.80[2]	.97	1.05	23	32	3.2	20.6	34 -18¼
Northern Illinois Gas	1.80	2.04	2.13[1]	2.21[1]	1.15	1.40	109	60	2.3	29.4	61 -28⅝
Pacific Lighting	2.64	3.43	3.10[2]	3.16[2]	2.40	2.40	50	60	4.0	17.4	61 -46⅝
Washington Gas Light	3.50	3.79	4.18[2]	4.25[2]	2.32	2.40	50	74	3.2	19.5	77½-45½

†—Based on 1960 earnings per share.
*—Based on latest dividend rates.

1—12 months ended July 31.
2—12 months ended June 30.
3—Plus stock.

PIPELINES

El Paso Natural Gas continues to be faced with extensive regulatory and legal problems as well as prospective competition from new pipelines. A proposed connection with **Colorado Interstate** will add to sales over the coming several years.

Mississippi River Fuel has increased the supply to its major market through a new pipeline owned by a subsidiary. In addition to extensive oil interests the company owns almost 30% of Missouri Pacific Railroad Class A stock.

Northern Natural Gas is diversifying into the propane and butane market on both the wholesale and retail level. Company also authorized to build a helium extraction plant. Reserves have been strengthened by recent purchases and acquisition of 16% ownership in Transwestern Pipeline.

Panhandle Eastern and its subsidiary **Trunkline** have recently proposed a major expansion program to serve the industrial Midwest, a portion of which has been approved. An adverse rate order issued last month denies the company fair field price for its owned reserves for past periods.

Southern Natural Gas has benefitted from rate increases but is meeting increasing competition from other fuels for industrial uses. The offshore operations are contributing to earnings.

Tennessee Gas Transmission and its non-regulated subsidiary Tenneco comprise a rapidly growing oil and gas complex as well as petrochemical facilities, and insurance company and real estate operations. An unsatisfactory rate order has caused the company to postpone all regulated construction.

Texas Eastern proposes to build a long distance coal pipeline as well as operating its oil and gas transmission facilities. The oil pipeline is expected to provide a solid contribution to future earnings.

Texas Gas Transmission has no rate problems and is continuing to expand slowly. Construction of underground storage fields by customer companies is aiding in overcoming a former load factor.

Transcontinental Pipeline continues to be the major supplier for the eastern seaboard states as well as the New York. New Jersey industrial areas. A proposed liquids pipeline serving the southeast is still be constructed but on a smaller scale than anticipated.

INTEGRATED COMPANIES

American Natural Gas has obtained important new reserves which lessen the importance of the supply formerly received from Panhandle. The longstanding dispute between the two companies is approaching an end. Growth is good, considering a number of mature economic areas are served.

Arkansas Louisiana derives almost 40% of its net income from the manufacture of air conditioners, heating equipment and related items, and a cement plant. A rate increase in Arkansas and a program of acquisitions are providing a base for future earnings growth.

Colorado Interstate Gas has agreed to increase its supply to Denver and proposes to construct a major extension to connect with El Paso Natural Gas. In view of Commission order in Panhandle case the likelihood of obtaining value for owned reserves is slim.

Columbia Gas System corporate reorganization is proceeding and will ultimately reduce problems of regulatory lag. In the interim, earnings growth will continue to be modest.

Consolidated Natural Gas is applying for a major increase in its Ohio operating area. In addition it is actively seeking new uses in industrial processing which dominates the territory served. A small exploration program has been successful.

Lone Star Gas obtained important rate relief last year which will contribute to 1961 results. Extremely active in promoting gas appliances, especially air conditioners, the system should benefit over the next several years.

National Fuel Gas is becoming a more aggressively managed company but still serves a rather static residential area in western New York and adjoining areas of Pennsylvania and Ohio. Earnings growth is likely to be modest.

Oklahoma Natural Gas has a record of good customer growth and since undertaking a program of acquisitions has further enhanced its prospects. Alert to the promotion of gas appliances and having excellent control of its gas supplies, the company operates at a high load factor.

Peoples Gas Light has increased its earnings sharply since obtaining a larger supply from its own and a competing pipeline. A recent split and dividend increase have driven the market to an historically high level.

United Gas Corporation is still awaiting rulings in rate cases dating from 1954. A decision several months ago by the City of San Antonio to accept service from a competing distributor is being challenged in the courts. While broadly diversified, material earnings growth is unlikely until regulatory problems are clarified.

RETAIL DISTRIBUTORS

Alabama Gas provides a relatively high yield on a well covered dividend. Reductions in industrial sales and adverse weather have held earnings stable in the current year.

Brooklyn Union is continuing to make steady inroads in the heating market and expects major benefits from the development of Staten Island. Rate reductions in the past several years have enabled the company to acquire many new customers and thus benefit earnings.

Laclede Gas expects to benefit from the extensive urban redevelopment of downtown St. Louis. A new supply recently obtained should eliminate the residential backlog. The Missouri Commission has been quick to offset higher gas costs.

Northern Illinois Gas serves a diversified and rapidly growing service area. An aggressive and inventive management has enhanced the company's position.

Pacific Lighting serves the growing southern California market but is threatened by a competing pipeline proposed by Tennessee Gas to serve an important industrial customer. Rising gas costs have limited earnings growth in recent years.

Washington Gas Light has experienced rising population growth in recent years as District of Columbia suburbs extend into southern Maryland. Efforts to obtain storage rights continue to be thwarted by the legislature. A recent stock split reflects the long term rise in earnings.

stability and aid the investor in evaluating the market potential for natural gas securities.

A dispassionate view of the market performance of the industry at this time is indeed a sobering experience. In the past year it has become increasingly enmeshed in some of the most complicated regulatory and legal disputes ever to entangle a single industry. In the face of such misfortune, it is not surprising that the securities have done quite poorly. **Just as an example, in the past year a representative index of gas transmission companies has risen in price a mere 9% over a year ago and now yields 4.5%. In the same period, gas distribution companies advanced an average of 36% and yield 3.1%, while electric utilities are up about 25% to yield 3%. Also, in the same period, the Dow Jones Industrials rose 24% and now yield 3%. Apparently this divergence is not merely a short-term trend but rather has become more or less permanent, as the transmission companies have lost favor in the market.**

Hostile Regulatory Treatment of Gas Transmission Companies

A comparison between electric utility stocks and the natural gas transmission companies naturally arises in attempting to determine relative investment merit. The transmission companies, under present Federal Power Commission and court rulings, are utilities for investment purposes, just like the electric companies. But it is somewhat disturbing to recognize that the FPC is continuing to adhere to a concept of rate of return which will allow a transmission company only approximately 10% to 10½% on its equity investment, while the average electric company is earning in excess of 11%, and in some cases (even where consumer rates are not high) as much as 12% to 13%. Last June, in these pages, it was noted that this pattern of regulation would more and more classify the natural gas transmission companies as income vehicles rather than as growth stocks, their former status. There seems little in current developments to cause a modification of this position.

Background of Federal Power Commissioners

Before reviewing some of the more recent developments and evaluating the prospects of individual companies, a few comments on the backgrounds of the Federal Power commissioners seem appropriate.

Chairman Joseph C. Swidler was formerly the General Counsel for the Tennessee Valley Authority and was associated with that organization for a number of years prior to entering his own law practice, in which he represented municipally-owned power organizations. In public statements since his appointment he has given many indications that he will be a forceful administrator and that he understands that his appointment carries with it the burden of clarifying the regulatory situation as rapidly as possible.

Howard Morgan, another recent appointment, was the state utility commissioner in Oregon from 1957 to 1959 and prior to that a member of the Oregon Legislature and Democratic state party chairman. During his tenure as utility commissioner he gained a reputation as a strict regulator and one who appeared to think only of the interests of the consumer. Nonetheless, his rulings were logical and not readily subject to court review.

Lawrence J. O'Connor also has been appointed in the last few months and gained a certain amount of notoriety when a minor filibuster was staged against his appointment. The objection was based on the fact that O'Connor had at one time worked for an oil company, and despite an excellent reputation gained from running the Interior Department's oil import department, was regarded as an "Industry Man". While he has made no public statements since his appointment, there is reason to believe that his views on important regulatory issues are balanced.

Charles Ross, formerly the chairman of the Vermont State Commission, was appointed in the closing days of the last Congressional session. He has no background in the natural gas industry. In the regulatory picture, Vermont is considered to be a strict jurisdiction, and rate orders issued by its Commission have not been considered generous.

Jerome K. Kuykendall, the hold-over Commissioner, for the moment provides the sole continuity with past regulation. His term expires in June, 1962, but it is generally expected he will leave the Commission before that time, permitting the Administration to make a complete change.

Under an Administration that has as its policy expansion of public power, as many appointments in the Interior Department appear to indicate, the FPC attitude toward this matter will also be important. A statement made in September by Chairman Swidler contained the comment, "My background in the electric utility field, where integrated operations are the rule, makes me wonder how a system that has no unified responsibility could operate efficiently." At the time he was addressing representatives of the natural gas industry. Subsequent questioning did not elicit more definite clues as to his meaning of "unified responsibility." In view of the heavy demands now being made on Federal funds for more important political needs it does not seem likely, however, that any sizable amount will be allocated by Congress for the extension of government control over either the electric industry or the natural gas industry in the near future.

Swidler Recognizes Need for Higher Rewards for Exploration

Chairman Swidler has reiterated several times his determination to settle the producer price problem as quickly as possible. Toward this end he recently stated that area rate proceedings started last year probably will prove to be the most important single tool for developing a sound framework for producer regulation. He added that the Commission did not expect the producer to continue to risk his money exploring for gas at a pace which the national interest requires without hope of some return on the money expended higher than that associated with largely risk-free investments in conventional utility enterprises. Producers generally have received his statements with optimism.

Support for Area Pricing

Industry representatives, while still cautious, have welcomed the Commissioner's desires to accelerate rate procedures, to extend area pricing and to emphasize the need for increased supplies of gas. The industry is also support- *(Please turn to page 161)*

FOR PROFIT AND INCOME

Another Look At MGM

Metro-Goldwyn-Mayer was recommended here at a low level some time ago. Following a sharp rise, profit taking was advised at 68½ in the issue of last May 2. The stock is currently down to 48, should begin to meet support and is believed to have merit for speculative buying. Profit for the fiscal year ended August 30 probably was in the vicinity of $5.00 a share, up from the prior year's $3.83, and a good further current-year gain is probable. The company has a hit picture in "Ben Hur" and some promising releases are scheduled, especially the "King Of Kings" and "Mutiny On The Bounty." Old films on TV, phonograph records and music publishing are sources of sizable revenue. More important, releases to TV from the large library of post-1948 pictures are just beginning. M-G-M has the biggest all-time movie gold mine in "Gone With The Wind", made in 1939, currently yielding fat profits in its fifth release, and expected to be the first movie to pass $100 million gross. The way it is going, this film may never get to television. The stock appears undervalued at less than 10 times last year's estimated earnings, possibly under 8 times current-year earnings. The $1.60 dividend could well be raised before long.

Three Speculations

The railroad industry is discussed in detail elsewhere in this issue. Suffice it to note here that the group's chart pattern appears more promising than in some time; and that, even within the range of the past two years or so, there is leeway for possible further recovery of some proportions. Top-grade, safe-dividend rails naturally promise the least in a cyclical upswing. The lowest-grade issues move widely in percentage but are too risky to interest this department. Three "in-between" choices for speculation here are Illinois Central, Rock Island and Western Maryland.

Utilities

The utility list held up well in the September market unsettle-

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1961	1960
Associated Dry Goods	Quar. July 29	$.48	$.33
International Harvester	Quar. July 31	1.14	.73
Caterpillar Tractor	7 mos. July 31	1.16	.90
Federated Dept. Stores	13 weeks July 29	.30	.25
Arkansas Louisiana Gas	Quar. June 30	.44	.38
Household Finance Corp.	6 mos. June 30	1.48	1.26
Curtiss-Wright Corp.	Quar. June 30	.29	.23
Columbia Gas System	12 mos. June 30	1.59	1.47
Disney (Walt) Production	9 mos. July 1	1.46	.20
Pacific Gas & Electric	12 mos. June 30	4.51	3.89

ment, as also did rails, and took little time to break out of its recent narrow range to another new postwar high. If you want growth utilities, such as Southern Company, Texas Utilities or similar issues, you have to pay a fancy premium today. Certainly on a medium-term viewpoint, we find it hard to share the present general investment enthusiasm for them. On the other hand, to get yields over 4% you have to go to the most static issues, subject to little growth of earnings, if any, and thus having a minimum basis for appreciation. Two of these are New England Electric System, currently yielding 4.4% and Public Service of New Hampshire (over the counter), yielding 4.5%. Basically, there is not a great deal more to be said for them than for buying bonds or preferred stocks. Many average-growth utilities that yielded 5% to 6% not so many years ago now yield from 3% to 3.3%. Examples are Baltimore Gas & Electric, Cleveland Electric, Consumers Power, Ohio Edison and Public Service of Indiana. Yet pressure of surplus funds seeking relatively conservative investment could take these issues and utilities generally to still higher levels, even though they would seem to be rather liberally valued already.

Industrials

At this writing the industrial average is less than 3% under its early-September peak, although the distance does not look narrow in points. Whatever the average does, the huge industrial list is and will remain a highly mixed "market of stocks." Stock groups faring better than average in recent trading up to this time include automobiles, drugs, office equipment, bank stocks, insurance, most of the retailing groups, textiles, tires and tobaccos. Groups currently lagging are principally aircraft, air lines, building materials, chemicals, farm machinery, motion pictures, oils, rail equipment and steel.

Tax Selling

Smart investors will not wait until the last few days of the year to do some selling and switching for tax-adjustment purposes. The "early birds" have already begun it and will be ready to concentrate on buying of some issues which may become over-depressed by late-1961 tax selling. If the market holds around present levels or advances, over-all tax selling will be considerably less this year than it was in late 1960, and will not of itself have any significant effect on the Dow industrial average because most of the sharply-depressed stocks are not in this average. There are scores of issues now down 25% or more from this year's highs, and many off by larger percentages from older highs. There are numerous candidates for tax selling in such groups as air lines, aluminum, electronics-television, oils, publishing, steels and vending machines. Look over your holdings soon with an eye to cutting 1961 tax liability by some judicious switching, and improving portfolio quality and potentials at the same time. Too many people sit tight on unsatisfactory and unpromising holdings.

Strong

Some industrials meeting above-average demand at this writing are Armstrong Cork, Associated Dry Goods, Brown Shoe, Cluett Peabody, Dana Corp., Federated Department Stores, Ford Motor, General Motors, Gimbel Bros., Jewel Tea, Philip Morris, Reynolds Tobacco, Sears Roebuck and Singer Mfg.

Lagging

Chart patterns of the following stocks look unpromising: Air Reduction, Allis-Chalmers, Alcoa, Case, City Products, American Cyanamid, Boeing, Fenestra, General Bronze, Kaiser Aluminum, Getty Oil, Ritter, Outboard Marine, Sunstrand, Standard Packaging, Texas Instruments, General Time, Filtrol, Twentieth Century-Fox Film and Whirlpool Corp.

Liquor

Distilling of liquor is not a growth industry. So some companies have diversified outside of this field. Their other activities are mostly small as compared with liquor, excepting in the case of National Distillers & Chemical. This company went into chemicals in a big way some time ago—but has not yet been able to get earnings up to the old peak set over 10 years ago in 1950 when liquor was the whole story and there was no "chemical" in the company name. Ironically, the two companies which stuck to liquor have fared best. They are Hiram Walker and American Distilling, The latter has much the smallest volume among the better-known distillers, but the record testifies to the exceptional ability of the management in competing with the big concerns. Indeed, here is a growth stock in liquor, of all things. Following an unimpressive older trend, earnings have risen for nine consecutive years. The gain in eight years through the September 30, 1960, fiscal year was 600% to $2.38 a share. Profit for the year recently ended is estimated in the $2.60-$2.70 range. It should be higher under better general economic conditions in the present 1961-1962 year. Dividends are at $1.00. At 47 the stock is selling around 18 times earnings. That would be high for a run-of-the-mill liquor stock, but is reasonable for any kind of growth stock.

Insurance

Stocks of underwriters of casualty insurance reacted sharply as a result of Hurricane Carla,

(Please turn to page 164)

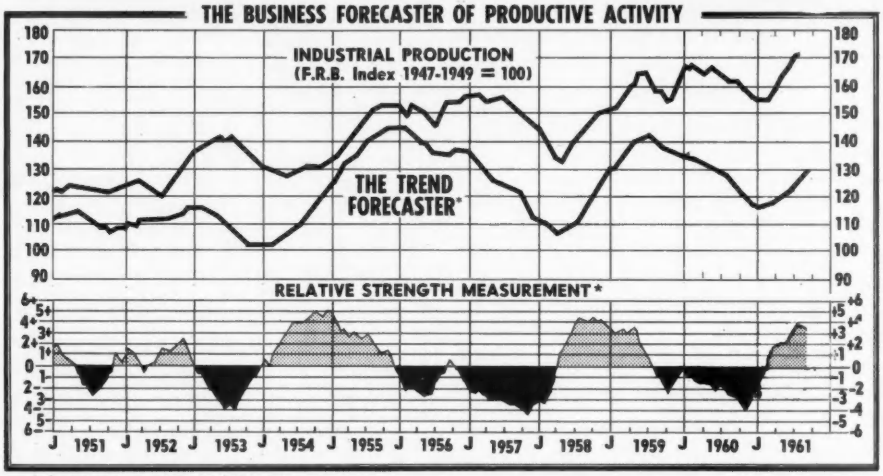
DECREASES SHOW IN RECENT EARNINGS REPORTS

		1961	1960
Hat Corp. of America	9 mos. July 31	$.13	$.55
Van Raalte Co., Inc.	6 mos. June 30	.70	.87
Mesta Machine	6 mos. June 30	1.03	1.22
Universal Match	6 mos. June 30	.43	.80
Bigelow-Sanford	6 mos. July 1	.81	.92
Pittsburgh Metallurgical	Quar. June 30	.15	.24
Canadian Pacific Rwy.	6 mos. June 30	.39	.72
Jarger Machine Co.	Year June 30	.50	1.41
Texas Instruments	Quar. June 30	.65	1.01
Pet Milk Co.	Quar. June 30	.48	.69

the Business

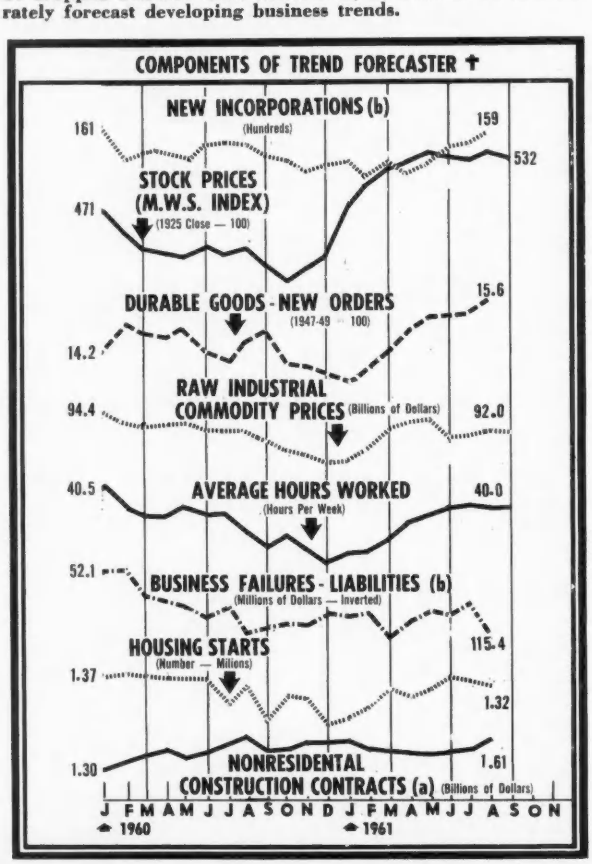
Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



* Latest figures are preliminary.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes directions up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a sustained advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually indicates that an important contraction is in the making.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

There has not been much change in the components of the Trend Forecaster in recent weeks. The only new figure has been for hours worked, with the Labor Department reporting a sharp drop because of such extraneous developments as hurricane Carla, the General Motors strike and religious holidays. Without these factors, we estimate that hours worked in September would have been about the same as in August and we are therefore keeping the figure unchanged.

On the basis of the latest month-to-month readings, three of the indicators were advancing, three declining and two held unchanged. However, the declines were relatively minor in most cases and did not affect the intermediate upward trend to any extent. On this long term basis, six of the indicators are still moving up.

The Relative Strength Measure in September stood at plus 3.4, according to our estimates. Although off a bit since July, it is still above the plus 3 level and points to a continuation of the upward trend in business activity.

Analyst

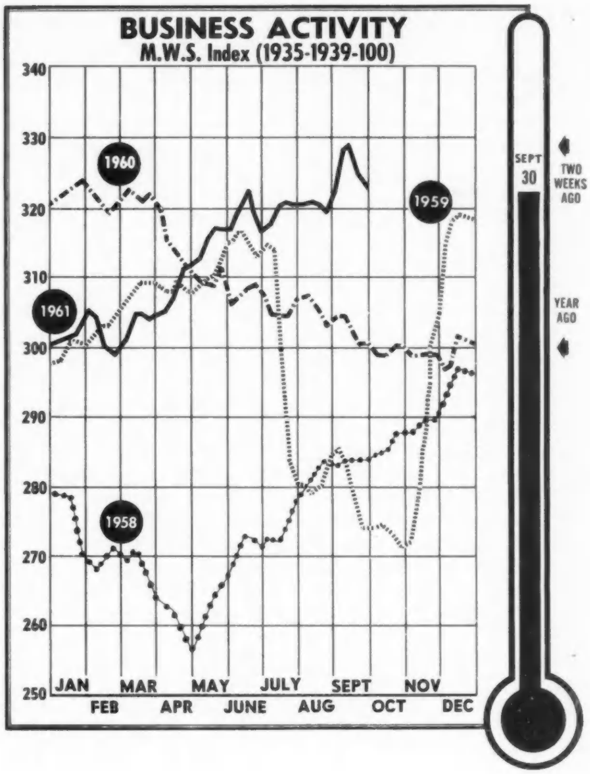
CONCLUSIONS IN BRIEF

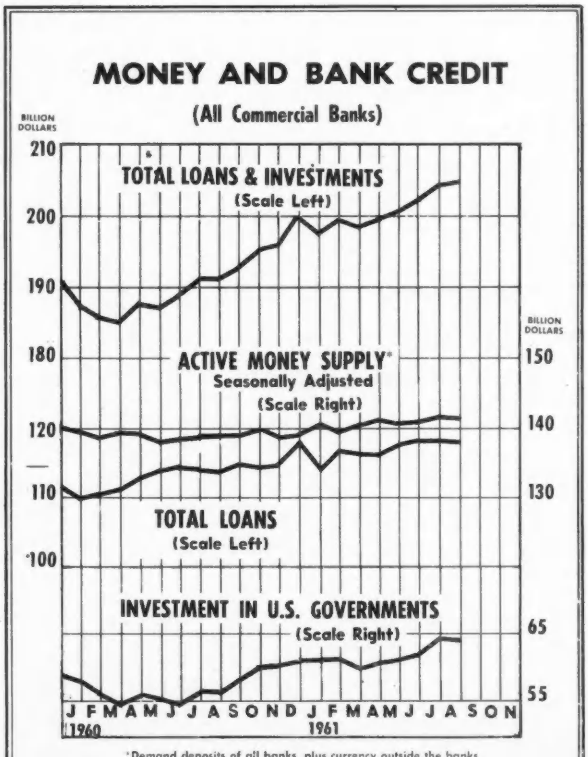
PRODUCTION — Output inching upward despite new strike in auto industry, with activity in steel, electric power and coal all moving higher. Settlement of Ford strike will bring sharp gain in auto production but no big near-term gains are expected for industry in general.

TRADE — Consumers still marking time in September. Introduction of new auto models brought sharp gains in auto sales late in the month, but this was in line with seasonal expectations. Watch trend of retail sales in the immediate weeks ahead for signs that the public is finally beginning to loosen its purse strings.

MONEY & CREDIT — Federal Reserve still following easy-money policy, which may be maintained as long as commodity prices remain stable. Gold movements should be watched, however, as renewed outflow could force Fed to tighten credit, raise interest rates.

COMMODITIES — Prices still easy in most areas. Sensitive commodities slightly lower while raw materials and semi-finished goods also give ground. Irregular trend may continue for some time unless there is a marked increase in buying for inventory and in consumer demand.





*Demand deposits of all banks plus currency outside the banks

WHAT the consumer spends in the months ahead will probably be one of the main determinants of the vigor and duration of the current recovery. Up to now, business activity has forged ahead without much assistance from this sector of the economy, but a vigorous upturn can hardly continue for long without convincing signs that the consumer is ready to purchase his share of increasing output.

Thus far, consumer spending has remained in a rut and is still near the lows of the recent recession. If this reluctance to buy continues much longer, it will also begin to affect other areas of the economy adversely. The consumer's purchasing proclivities at this juncture are examined thoroughly in this issue in the article, "The American Consumer — Heel or Hero," which will give the reader a comprehensive understanding of the complex forces that must be taken into account in assessing the outlook for consumer spending. Suffice it to say here that, although some signs of a possible awakening of consumer demand are beginning to appear, no clear-cut indication of the contribution to be expected from this area of the economy will be available until later this year.

On the other major economic fronts, further gains have been made in recent weeks, although the rate of advance has been far from uniform. Perhaps the best showing has been racked up by new orders, where revised figures indicate that an advance of \$900 million took place in August, pushing the total to a new high of \$32.1 billion. September may show

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Aug.	171	170	165
Durable Goods Mfr.	1947-'9-100	Aug.	176	174	169
Nondurable Goods Mfr.	1947-'9-100	Aug.	168	167	162
Mining	1947-'9-100	Aug.	130	129	129
RETAIL SALES*	$ Billions	Sept.	18.2	18.2	18.1
Durable Goods	$ Billions	Sept.	5.5	5.5	5.8
Nondurable Goods	$ Billions	Sept.	12.6	12.7	12.3
Dep't Store Sales	1947-'9-100	Aug.	150	151	144
MANUFACTURERS'					
New Orders—Total*	$ Billions	Aug.	32.1	31.3	30.0
Durable Goods	$ Billions	Aug.	15.6	15.0	14.4
Nondurable Goods	$ Billions	Aug.	16.6	16.3	15.6
Shipments*	$ Billions	Aug.	31.6	31.2	30.1
Durable Goods	$ Billions	Aug.	15.2	14.8	14.4
Nondurable Goods	$ Billions	Aug.	16.4	16.4	15.7
BUSINESS INVENTORIES, END. MO.*	$ Billions	Aug.	92.1	91.8	93.3
Manufacturers'	$ Billions	Aug.	54.0	53.5	55.0
Wholesalers'	$ Billions	Aug.	13.6	13.6	13.1
Retailers'	$ Billions	Aug.	24.5	24.7	25.2
Dept. Store Stocks	1947-'9-100	July	166	164	167
CONSTRUCTION TOTAL—t	$ Billions	Sept.	58.4	57.8	55.6
Private	$ Billions	Sept.	41.4	41.2	39.3
Residential	$ Billions	Sept.	23.4	23.3	22.1
All Other	$ Billions	Sept.	18.0	17.9	17.2
Housing Starts*—a	Thousands	Aug.	1317	1338	1355
Contract Awards, Residential—b	$ Millions	Aug.	1589	1502	1433
All Other—b	$ Millions	Aug.	1954	2027	1862
EMPLOYMENT					
Total Civilian	Millions	Sept.	67.0	68.5	67.8
Non-farm*	Millions	Sept.	53.4	53.4	53.0
Government*	Millions	Sept.	8.9	8.8	8.5
Trade*	Millions	Sept.	11.6	11.7	11.7
Factory*	Millions	Sept.	12.0	11.9	12.2
Hours Worked*	Hours	Sept.	39.3	40.0	39.1
Hourly Earnings	Dollars	Sept.	2.34	2.34	2.30
Weekly Earnings	Dollars	Sept.	92.66	93.83	91.08
PERSONAL INCOME*	$ Billions	Aug.	419	421	405
Wages & Salaries	$ Billions	Aug.	283	282	273
Proprietors' Incomes	$ Billions	Aug.	61	61	60
Interest & Dividends	$ Billions	Aug.	42	42	41
Transfer Payments	$ Billions	Aug.	32	35	29
Farm Income	$ Billions	Aug.	17	17	17
CONSUMER PRICES	1947-'9-100	Aug.	128.0	128.1	126.6
Food	1947-'9-100	Aug.	121.2	122.0	120.1
Clothing	1947-'9-100	Aug.	109.9	109.9	109.3
Housing	1947-'9-100	Aug.	132.3	132.4	131.5
MONEY & CREDIT					
Active Money Supply*—u	$ Billions	Aug.	141.4	141.6	138.6
Bank Debits*—g	$ Billions	Aug.	102.4	100.7	99.0
Business Loans Outstanding—c, u	$ Billions	Aug.	31.5	31.3	30.9
Instalment Credit Extended*—u	$ Billions	Aug.	4.1	4.0	4.1
Instalment Credit Repaid*—u	$ Billions	Aug.	4.1	4.0	3.9
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Aug.	6.4	3.0	6.5
Budget Expenditures	$ Billions	Aug.	7.6	6:3	6.8
Defense Expenditures	$ Billions	Aug.	4.1	3.4	4.1
Surplus (Def) cum from 7/1	$ Billions	Aug.	(4.6)	(3.3)	(3.4)

PRESENT POSITION AND OUTLOOK

a further gain, judging by the National Association of Purchasing Agents' report that there was a substantial increase in the number of firms reporting higher new orders last month. Equally important is the fact that new orders are now running well above shipments, pushing up backlogs which are a prime element of support for business activity. The recent strength in new orders is a good indication that further advances in output, at least for the near-term, are probable.

General construction has also continued to increase, reaching a new high in September. At the same time, contract awards have shown significant improvement, and this should lead to a gain in building activity for some months to come. In the normally volatile field of capital spending, there appears to be no reason for changing our expectations of a moderate increase in the remaining months of this year.

While inventories may also move higher, the outlook here is not as promising as in some other sectors. The business recovery, in its early months, received a good deal of impetus from the swing to inventory accumulation which occurred at that time. Although further gains in inventories have taken place in the third quarter, the pace of advance has slowed. In determining the prospects for additional inventory increases, one must take account of the trend of business sales, new orders and backlogs. Based on these determining factors, inventories in the fourth quarter should rise at about the same rate as in the last three months. This would mean that inventory investment was not providing any special boost to the economy in the fourth quarter. Government spending, on the other hand, will continue to rise briskly and the increase is already being reflected to some extent in the new order figures.

Summing up this analysis, it appears that most of the major economic sectors are heading for further gains over the near-term, while no areas of actual weakness have developed as yet. All of which brings us back to the consumer,

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1961 Quarter II	1961 Quarter I	1960 Quarter IV	1960 Quarter II
GROSS NATIONAL PRODUCT	516.1	500.8	504.5	506.4
Personal Consumption	336.1	320.7	332.3	329.9
Private Domestic Invest.	68.8	59.8	65.6	74.6
Net Exports	3.9	5.3	5.1	2.3
Government Purchases	107.3	105.0	101.6	99.6
Federal	56.6	54.7	53.0	52.9
State & Local	50.6	50.3	48.6	46.8
PERSONAL INCOME	413.2	404.7	405.5	403.0
Tax & Nontax Payments	51.5	50.4	50.6	50.3
Disposable Income	361.8	354.3	354.9	352.7
Consumption Expenditures	336.1	330.7	332.3	329.9
Personal Saving—d	25.7	23.7	22.7	22.8
CORPORATE PRE-TAX PROFITS	45.2	39.6	42.6	46.3
Corporate Taxes	22.4	19.6	21.1	23.0
Corporate Net Profit	22.8	20.0	21.4	23.3
Dividend Payments	14.0	14.2	14.3	14.0
Retained Earnings	8.6	5.8	7.2	9.3
PLANT & EQUIPMENT OUTLAYS	34.4	33.9	35.5	36.3

THE WEEKLY TREND

		Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Sept. 30	322.6	325.3	300.2
MWS Index—Per capita*	1935-'9-100	Sept. 30	229.0	230.9	216.1
Steel Production Index*	1957-'9-100	Sept. 30	114.4	113.5	83.6
Auto and Truck Production	Thousands	Oct. 7	129	143	165
Paperboard Production	Thousand Tons	Sept. 30	350	351	325
Paperboard New Orders	Thousand Tons	Sept. 30	366	344	335
Electric Power Output*	1947-'49-100	Sept. 30	298	290	275
Freight Carloadings	Thousand Cars	Sept. 30	638	605	632
Engineerings Constr. Awards	$ Millions	Oct. 5	451	465	603
Department Store Sales	1947-'9-100	Sept. 30	156	154	149
Demand Deposits—c	$ Billions	Sept. 27	62.1	62.7	61.3
Business Failures—s	Number	Sept. 28	286	337	304

PRESENT POSITION AND OUTLOOK

whose participation in the upturn is urgently needed, if we are to have a broad and healthy advance.

Another significant element in the business picture that requires consideration is the role of credit and finance in the months ahead. The Federal Reserve has thus far been able to maintain an easy-money policy in the face of rising business activity, thus giving the economy the benefit of relatively low interest rates in financing the expansion. From the domestic point of view, such a policy can probably be maintained as long as unemployment remains high and commodity prices are stable. Our financial position vis-a-vis foreign countries, however, may force a change in the policy of easy money. Our balance of payments again appears to be deteriorating and gold has been leaving our shores. If this trend continues, the monetary authorities may have to move in the direction of higher interest rates, with the aim of making short-term investment here more attractive. If higher rates do become necessary, in time they might be helpful in curbing a continued outflow of funds, but, over the longer term, they could also prove to be an unwelcome drag on business recovery.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun & Bradstreet. (t)—Seasonally adjusted, annual rate. (u)—End of month data. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1960-61 High	1960-61 Low	1961 Sept. 29	1961 Oct. 6
Composite Average	550.0	410.9	524.1	532.1
4 Agricultural Implements	497.2	346.4	404.7	397.0
3 Air Cond. ('53 Cl.—100)	176.9	105.8	150.9	153.4
10 Aircraft & Missiles	1393.5	861.9	1232.7	1232.7
7 Airlines ('27 Cl.—100)	1163.6	736.7	935.8	952.0
4 Aluminum ('53 Cl.—100)	521.3	337.2	349.2	337.2L
5 Amusements	427.0	209.3	346.5	343.4
5 Automobile Accessories	531.1	401.0	475.0	479.6
5 Automobiles	157.0	90.8	128.0	128.9
3 Baking ('26 Cl.—100)	44.6	34.9	39.0	38.6
4 Business Machines	2008.2	1159.1	1812.6	1903.8
6 Chemicals	887.1	657.3	842.4	864.8
3 Coal Mining	39.3	27.2	37.9	37.9
4 Communications	257.6	199.9	240.1	240.1
9 Construction	235.2	143.3	228.4	230.1
5 Container	1117.7	824.6	1091.7	1109.0
5 Copper Mining	399.3	275.4	341.5	338.7
2 Dairy Products	240.6	146.8	236.5	240.6H
5 Department Stores	212.9	135.2	212.9	212.9
5 Drugs-Eth. ('53 Cl.—100)	474.7	360.4	426.4	438.1
5 Elect. Eqp. ('53 Cl.—100)	409.4	310.7	388.7	405.9
3 Finance Companies	1147.9	648.8	1091.7	1147.9H
5 Food Brands	853.1	419.3	808.5	802.9
3 Food Stores	331.0	232.1	326.0	323.5

(Nov. 14, 1936 Cl.—100)	High	Low	Sept. 29	Oct. 6
High Priced Stocks	342.8	262.7	332.1	338.4
Low Priced Stocks	729.8	527.6	673.8	683.0
5 Gold Mining	1226.0	810.8	1061.8	1039.9
4 Investment Trusts	173.5	136.5	160.9	166.5
3 Liquor ('27 Cl.—100)	1548.9	1098.2	1396.3	1431.5
7 Machinery	647.3	402.9	554.8	559.7
3 Mail Order	494.2	364.2	429.4	457.8
4 Meat Packing	313.9	223.9	282.7	277.6
4 Mtl. Fabr. ('53 Cl.—100)	208.6	132.4	175.5	176.8
9 Metals, Miscellaneous	483.4	313.3	449.8	456.6
4 Paper	1237.1	867.3	1090.1	1119.6
16 Petroleum	828.6	609.0	707.2	721.4
16 Public Utilities	492.4	341.6	484.4	492.4H
6 Railroad Equipment	111.7	75.8	102.9	102.9
17 Railroads	70.1	49.9	57.1	60.2
3 Soft Drinks	1096.6	690.3	1040.4	1049.8
11 Steel & Iron	464.9	325.4	373.3	380.1
4 Sugar	100.9	63.0	81.5	82.9
2 Sulphur	874.7	563.1	775.9	775.9
11 TV & Electron. ('27—100)	130.4	86.8	115.0	115.9
5 Textiles	264.2	183.3	250.6	248.7
3 Tires & Rubber	255.9	170.6	229.9	235.3
5 Tobacco	337.4	182.5	325.9	337.4H
3 Variety Stores	398.9	349.3	388.3	391.8
16 Unclassifd (49 Cl. — 100)	337.7	224.0	290.8	300.2

H—New High for 1960-1961. L—New Low for 1960-1961.

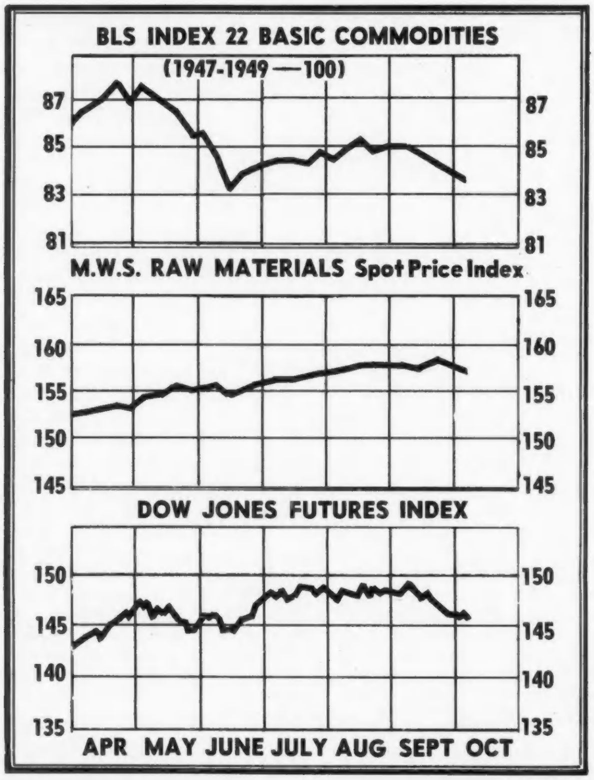
Trend of Commodities

SPOT MARKETS—Sensitive commodies continued to recede in the two weeks ending October 6, although most of the weakness was concentrated in foods. Raw industrial materials were off slightly, with the BLS index of this component down only 0.1%. The overall index gave up 0.5% as the result of a 1.2% drop in food prices. Among industrial materials, pluses and minuses just about cancelled each other out. Textiles were strong, while metals gave ground.

Among the broad range of commodities, further easiness was in evidence and the BLS index of all commodities other than farm products and foods was down 0.2% to its lowest level in more than two years. This steady downdrift in a representative group of commodities is hardly indicative of burgeoning inflationary pressures.

FUTURES MARKETS—Commodity futures receded on a broad front in the fortnight ending October 6. Almost all markets were lower, with wheat, corn, oats, soybeans, lard, wool, hides, copper, coffee, cocoa and sugar losing ground. Cotton and rubber managed to hold their ground but no advances were in evidence.

Wheat futures sold off sharply in the period under review with the December option losing 4 cents to close at 202¾. Exports continue at a high level but there is no report as yet regarding the rate of impounding of wheat under the Government support program. Lower prices for the grain would undoubtedly encourage such impoundings, indicating that the loan program will be an important buffer against any serious decline in prices.



BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Oct. 3	118.5	118.6	119.6	60.2
Farm Products	Oct. 3	87.8	87.8	89.5	51.0
Non-Farm Products	Oct. 3	127.0	127.2	128.0	67.0
22 Sensitive Commodities	Oct. 6	83.7	84.1	83.6	53.0
9 Foods	Oct. 6	73.3	74.2	75.5	46.5
13 Raw Ind'l. Materials	Oct. 6	91.5	91.6	89.6	58.3
5 Metals	Oct. 6	97.0	98.1	90.7	54.6
4 Textiles	Oct. 6	83.9	82.7	78.6	56.3

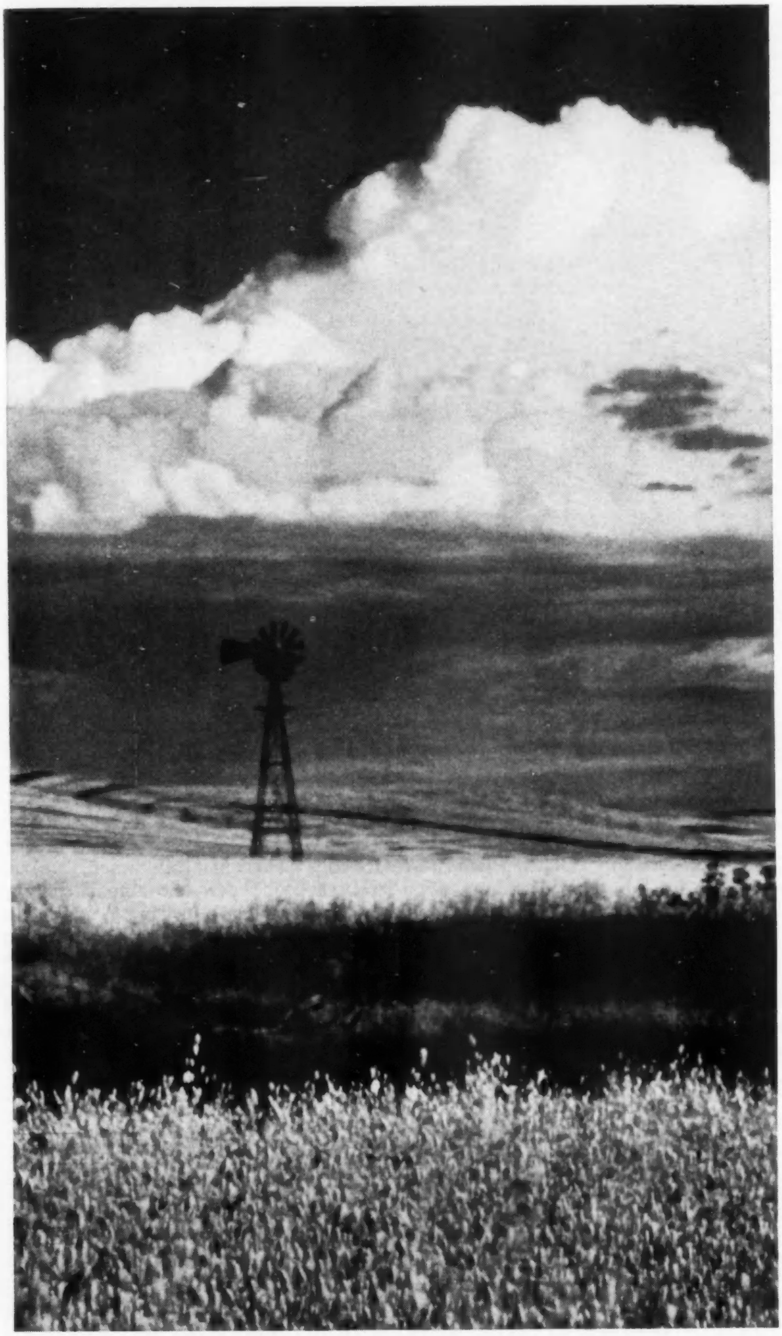
MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1961	1960	1959	1953	1951	1941
High of Year	158.4	160.0	161.4	162.3	215.4	85.7
Low of Year	150.5	151.1	152.1	147.9	176.4	74.3
Close of Year		151.2	158.3	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1961	1960	1959	1953	1951	1941
High of Year	148.9	148.7	152.7	166.8	215.4	84.6
Low of Year	141.2	141.2	144.2	153.8	174.8	55.5
Close of Year		141.2	147.8	166.5	189.4	84.1

Out of thin air



...growth power for America

Collier Carbon and Chemical Corporation—a Union Oil subsidiary—literally creates business out of thin air.

For among its products are vital plant foods containing nitrogen, a part of the air you breathe. Practically no vegetation can exist without it.

From natural organic fertilizers, however, the supply of nitrogen is no longer adequate to provide for man's growing needs. Most plants cannot get it directly from the air. Collier can.

Today, by converting atmospheric nitrogen, we are able to replenish the plant food required by bumper crops.

Collier's fertilizers, used in a planned program, can produce an estimated $4 to $8 return for every dollar a farmer invests. More than that, these vital foods are rejuvenating soil that was "worn out." One acre today can produce what two did fifteen years ago.

Miracle fertilizers, versatile carbon products and industrial chemicals such as naphthalene—all these are part of Collier's portfolio. They contribute to your way of life and to Union's vitality.

Today, behind *each* of the 8½ million shares of Union Oil stock, there are more than 60 barrels of liquid petroleum reserves...more than 400,000 cubic feet of natural gas reserves...large investments in refinery, transportation and market facilities...large investments, too, in research laboratories and petrochemical plants.

With such diversification, we feel more than equal to the challenge of the future.

YOUR COMMENTS INVITED. *Write: Chairman of the Board, Union Oil Company, Union Oil Center, Los Angeles 17, California.*

Union Oil Company OF CALIFORNIA 76

THE WEST'S MOST EXPERIENCED GASOLINE REFINER

NATIONAL STEEL'S FAST NEW COLOR LINE

From this new automated finishing line at our Stran-Steel Division—the most advanced of its kind—stream the colorful pre-coated steel panels for our handsome Stran-Steel pre-engineered steel buildings. Stimulated by our pioneering of color, progressive designs and modern production techniques, demand for these modern buildings is flourishing. And this new 600-ft. color finishing line is providing effectively protected, uniformly color-coated steel building panels to meet the soaring demand more efficiently than ever.

Starting with zinc-coated coils that are first roll-formed, then cut into panels, our Stran-Steel Division's new line automatically processes the panels with a bond coat, an oven curing, multiple color coats and a second oven treatment via a unique 4-zone installation. Precision controls linked by twenty miles of wiring unerringly maintain the stringent specifications for paint pressures, oven temperatures and conveyor speeds. The result: Steel panels in any of ten long-lasting and attractive color finishes—all at a price per square foot that's just slightly higher than for galvanized steel alone.

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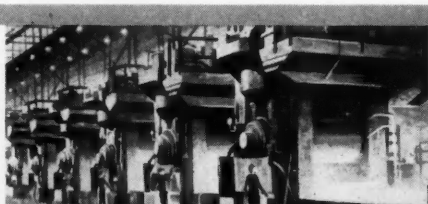
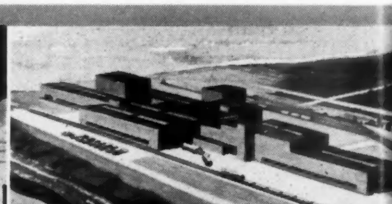
FIVE OTHER MAJOR STEPS TO FURTHER PROGRESS



AT GREAT LAKES STEEL in Detroit, the computer-controlled and operated 80" Mill of the Future—fastest, most powerful hot-strip mill in the world—will provide more and better automobile body sheets.



AT MIDWEST STEEL near Chicago, the most modern and efficient steel finishing plant in existence is providing industry with the finest quality galvanized sheets, tin plate and, soon, hot- and cold-rolled sheets.

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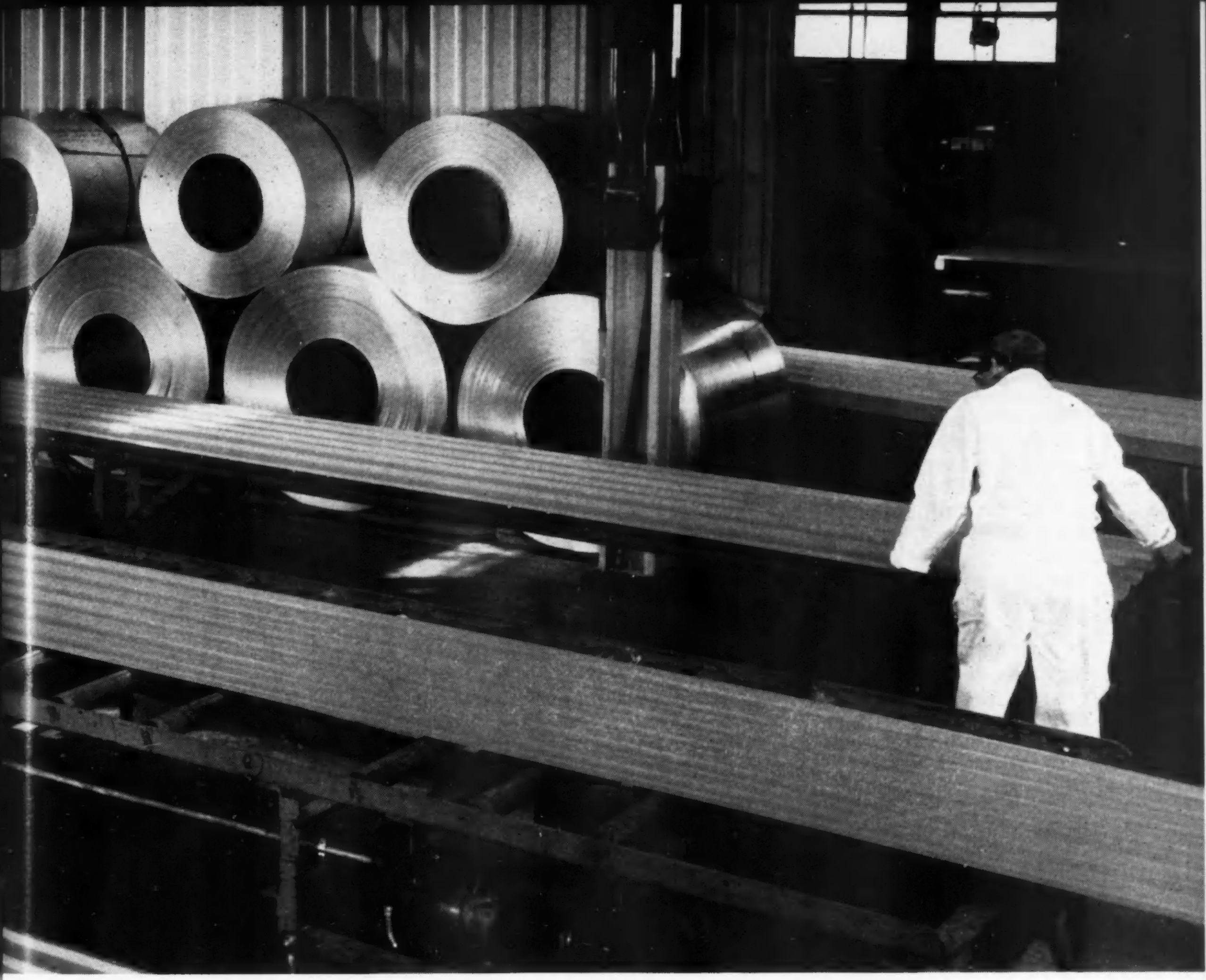


FOR PRE-COATED STRAN-STEEL BUILDINGS

This new finishing facility is one step in a program of progress throughout all divisions in which National Steel is investing well over $300,000,000. Among the far-ranging benefits: greater efficiency and stability throughout our operations; more secure jobs for our employees; more and better steel for our customers; and better values for you, the ultimate consumer of the million and one products made of steel. Other phases of this program will swing into action soon. And we will be bringing you news about them, too.

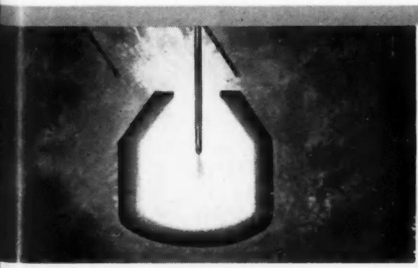
NATIONAL STEEL

NATIONAL STEEL CORPORATION, PITTSBURGH, PA.

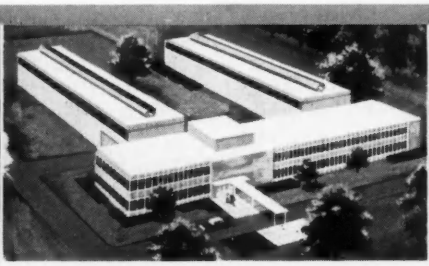
SUBSIDIARIES AND DIVISIONS:

GREAT LAKES STEEL • WEIRTON STEEL • MIDWEST STEEL • STRAN-STEEL • ENAMELSTRIP • HANNA FURNACE • NATIONAL STEEL PRODUCTS

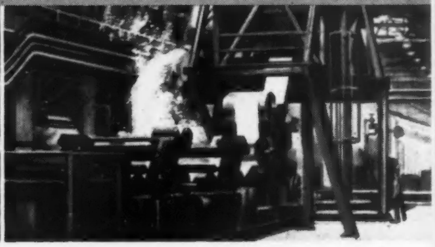
Steel



W BASIC OXYGEN FURNACES at Great Lakes ee. Construction has started on two basic oxygen rnaces—to be the largest ever built—which ill add new capacity and greater efficiency.



OUR NEW RESEARCH CENTER will be National Steel's headquarters for the expanded, continuing exploration of new and better raw materials, facilities, manufacturing processes and products of steel.



AT WEIRTON STEEL in Weirton, W. Va., new and improved facilities throughout this division increase the production and improve the quality of Weirton's tin plate, galvanized sheets and cold-rolled sheets.

Answers to Inquiries...

The Personal Service Department of THE MAGAZINE OF WALL STREET, 120 Wall St., New York City 5, N.Y., *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Gillette Co.

"I have been a subscriber to your valued Magazine for many years. For some time, I have not availed myself of the privilege of inquiring from you about securities. I would indeed appreciate your most careful advice on the problem of what to do with my large holding of Gillette common stock, which I inherited from a family estate last year. The cost of this stock to me for tax purposes, when transferred from the estate, was approximately $60 per share. Since then, the stock has more than doubled in price and I am wondering if I should continue to hold it."

A.B., San Francisco, California

Gillette Co. is the largest manufacturer of safety razors and blades. The company accounts for over 60% of all domestic razor blade sales and is also a major supplier of blades in most foreign markets. Razors, blades and shaving cream represent about two-thirds of the company's total sales, with home hair preparations and cosmetic products accounting for about 25%, and ball-point pens and other items representing the balance. Gillette has increased its proportion of the razor blade market in every year since World War II. The importance of foreign sales is indicated by the fact that, as recently as 1959, the company sold about 3.5 billion blades in foreign markets, compared with 2 billion in the domestic market.

In 1948, Gillette achieved an important diversification of its business through acquisition of Toni Co., manufacturer of the Toni, Prom, Bobbie and other home permanents, as well as hair spray, shampoos, deodorants and facial cleaners. This wholly-owned subsidiary accounts for about two-thirds of the market for home wave kits.

The Paper Mate pen division, acquired in 1955, is the largest domestic producer of ball-point pens in terms of dollar sales. In 1957, the Gillette Laboratories division was formed to market proprietary drug products manufactured by others. Thorexin cough remedy and cold capsules are now being distributed.

While over three-fourths of Gillette's net assets are located in this country and Canada, it is believed that foreign operations account for as much as 40% of total earnings.

The company is progressive in improving its products and successful in marketing. Last year, advertising expenditures amounted to over $38 million or about 17% of sales. The new Super Blue Blade continues to gain in volume and now represents more than 40% of all Gillet blades sold.

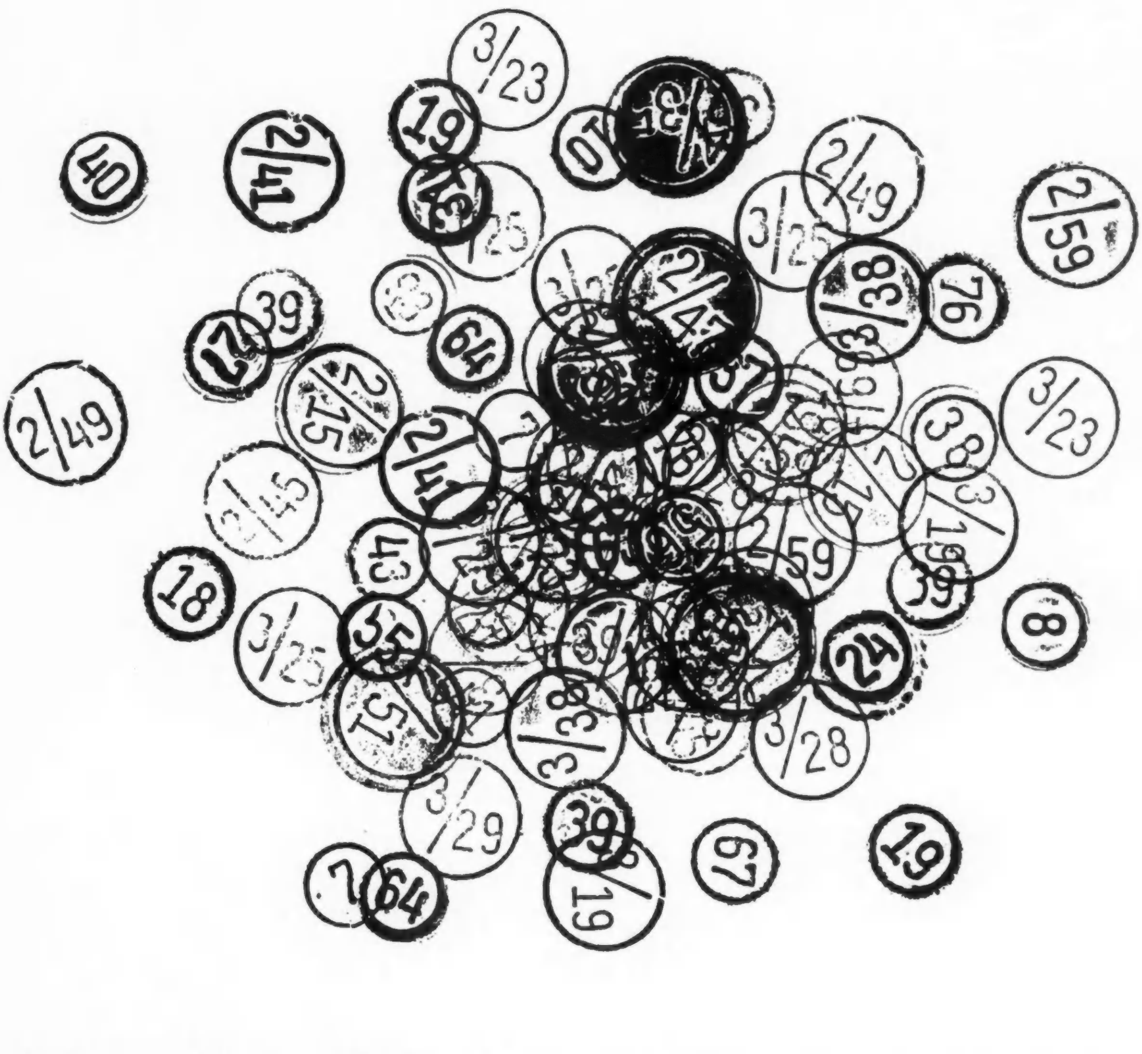
Based on a private market study, the company has stated that "five years ago there was definitely a trend to electric shavers". Now, however, "it looks like electric shaving has pretty well levelled off". The company stated that this was a key reason for its optimism as to the future of its razor and blade business.

Gillette continues to earn substantial funds for expansion purposes, without the need of new financing and, according to an official, the company is "acquisition minded." This fall, the Laboratories division will introduce a decongestant tablet called "Duramed-12". It is claimed that one tablet will give relief from cold and sinus congestion for 12 hours. The new tablets will be priced at 98 cents per dozen. However, the company is still moving slowly with the Laboratories division and results are not expected to be immediately significant in terms of over-all earnings.

In the last decade, total net sales have more than doubled, increasing from $99,350,000 in 1950 to $224,740,000 in 1960. In the first 6 months of this year, sales increased 12.4% over a year ago. Indications point to a new record volume this year.

Earnings over the past 10 years have also more than doubled, increasing from $1.91 per share in 1950 to $3.98 per share in 1960, representing a new peak. These figures are after adjustment for the last 2 for 1 stock split-up in 1955. For the first 6 months of this year, the company reported a further gain in earnings to $2.11 per share from $1.84 a year ago. Recently, an official

(Please turn to page 164)



The American Consumer —Heel Or Hero

(*Continued from page 125*)

consumers know it. This certainly does not encourage them to embark on a spending spree.

Tired of Being in Debt

In many respects, consumers are much more enlightened at the present time than in the earlier postwar years.

In those years, they wanted the goods that had been denied them so long and were willing to pay the price, even though it meant scrimping for many months to meet instalment debts.

Now, a considerable portion of the consuming public is out of debt, likes the "feel" of money in the bank, and is rather determined to stay out of debt.

Unquestionably, this attitude has been fostered by the numerous articles that have been published in popular magazine during the past few years on what happened to some families that went overboard on "easy credit", such as "We Went Bankrupt—on the Instalment Plan," which appeared in Reader's Digest of January, 1961.

Of importance, too, is the increasing realization that instalment buying is expensive. Such a work as Hillel Black's "Buy Now, Pay Later" may tend to exaggerate the cost of instalment buying, but the reader is left with the impression that he is "taken for a ride" when he buys on time.

Consumers who "save to buy"—as opposed to those who buy now and pay later—usually are much choosier and often may decide, after looking around, that they prefer the money in the bank to the new article they had been considering.

Since many merchants of "big ticket" items derive a substantial part of their incomes from interest on instalment sales or from kickbacks from financing organizations, rather than from normal merchandising profits, cash customers are not always liked. Sometimes, customers who indicate that they intend to pay cash are treated rudely in order to discourage a sale.

Arguing Both Sides

This matter of whether or not there will be a substantial consumer buying movement in the period ahead, aided by a pronounced increase in the use of instalment credit, seems to be one of those cases where it is easily possible to take either or both sides of the argument.

Recently, the Survey Research Center of the University of Michigan, which has been surveying consumer attitudes for a number of years, found that a decisive improvement had occurred in consumer confidence since last Spring, with consumers' intentions to buy big-ticket items also showing considerable improvement.

Although the Survey Center noted that the responses to the survey on "intentions to buy" did not indicate that any great buying movement was ahead, consideration in all probability should be accorded the progressiveness of a change in consumer attitudes, the first such in a long time, and the "contagiousnesss" of steppped-up buying once it gets under way.

Keeping Up With the Joneses

Consciously or unconsciously, consumers are motivated to a high degree by the spending attitudes of their community or of their friends.

For many months, it has been "fashionable" to restrict purchases of new cars and other durable goods. There has been much less social pressure to buy a new car, television set, and so on.

Now, as indicated by the University of Michigan survey, the tide has turned a little.

Once these pressures begin to rise, they frequently tend to mushroom. Without knowing quite how or why, many consumers suddenly may decide to buy new automobiles, for example, even though they thought that they had been determined to make the old car do for another year or two.

In the "discretionary" area of consumer durable goods, the upswings and downswings are a combination of economic and psychological factors at the moment. The uncertainty caused by the

outflow of gold may also be a factor.

The "Spending Cycle"

Consumer response to changes in disposable income is far from constant. Disposable income may rise, as it has over the past year, without stimulating any increases in total retail sales.

Some economists now maintain that there is evidence of a consumer spending cycle and that, even though this cycle is influenced to a certain degree by the general business cycle, it still is sufficiently "independent" to affect the general business cycle considerably.

The cyclical movements in consumer spending, it is said, are primarily the result of what seem to be cyclical movements in the purchase of automobiles and other durable goods. These latter cyclical movements are related to what might be called the "instalment credit cycle," that is, the expansion and contraction in the use of instalment credit, as measured by new extensions.

The independence or semi-independence of the consumer spending cycle is evident, it is asserted, from the fact that the topping out and bottoming out in new instalment credit extensions tend to precede the peaks and bottoms of the business cycle.

New extensions of instalment credit, seasonally adjusted, made a low last Winter and have been edging higher since then, much as they did in 1949, 1954, and 1958 on the eve of big buying movements.

Keep Fingers Crossed

It looks very much as if business men will have to keep their fingers crossed for the next eight to ten weeks, hoping for the best but prepared to accept considerably less in the way of expansion in consumer spending than suggested perhaps by historical relationships.

The tension created by the international situation, the calling up of many young men for a period of active military duty, the large and ever-increasing cost of consumer services, and the high degree of saturation of consumer requirements for goods are among the deterring factors that cannot be measured or evaluated at this time. END

The Rails Come To Life

(Continued from page 134)

did not use an increase in revenues (up 3.1%) as an excuse to let out expenses, but instead cut back by 4.3%.

The picture was pretty much the same down South; **Seaboard Air Line** reported lower operating expenses for the month of August (off 3.2%), but racked up a 7.1% gain in gross. Even the prosperous **Norfolk & Western** kept a close eye on the expense line; a sharp 13.7% jump in operating revenues was accompanied by a mere 2.9% rise in expenses.

Recent monthly evidence of this type is a fair indication of what should happen in the period immediately ahead. True, a considerable amount of deferred maintenance will have to be taken care of, particularly in the East. But managements are not likely to approve a material change in the maintenance budgets until conclusive evidence appears that the railroads' earning power is on the comeback trail. This is particularly true since the present good-order car fleet is handling the available traffic without any noticeable strain, while the good weather season for track work is fast drawing to a close.

Featherbedding Victory Could Offset Expected Wage Increase

As far as wage costs are concerned, the present contract expires at the end of October, 1961. Unless something unusual happens, the new agreement will undoubtedly contain a provision for higher wages and, hence, higher costs for the industry. *However, the agreement is not likely to be signed until sometime in early 1962 and its overall impact on railroad costs could be considerably softened if labor will agree to some rule changes. Elimination of the fireman from the diesel, by itself, would yield impressive economies more than sufficient to offset a higher pay scale.*

Thus, with operating cost still very much under close perusal and with the outlook favorable for a continuation of the upward revenue trend, a basis exists for impressive railroad earnings over the near term.

Washington — To these prospects for continued profits improvement must be added the feeling that the railroads are finally in for better treatment from Washington. Considering both factors and with the market now in a bargain-seeking mood, the railroad rally may well continue, subject, of course, to usual corrective moves. Not all carrier stocks will participate to the same degree, reflecting the differences in the basic positions of the individual roads. But the trend appears to be definitely upward for the group.

Three Major Quality Groupings

Just as all Gaul was divided into three parts, it is possible to identify three major groupings of railroad stocks, each of which has a different following. The first category might be defined as the quality roads, or those carriers having the most long-term appeal in an industry with an uncertain future.

► Roads in this class would include: **Santa Fe, Illinois Central, Kansas City Southern, Southern, Denver & Rio Grande, Southern Pacific, Union Pacific** and **Western Pacific.**

This type of rail stock is to be found in the typical institutional portfolio and it is from this quarter that the most active demand may develop in the period just ahead.

► The second grouping of rail stocks consists of the "middle tier" companies—issues which at one time might have been in group I or perhaps have always remained close to but below the top classification. Roads in this category have not usually been covering their dividends by wide margins, but they should inspire more confidence among their followers in the months ahead. Examples include **Rock Island, Chesapeake & Ohio, Great Northern** and **Northern Pacific.**

Since this segment of the rail list offers the fattest dividend returns, it may well attract the most attention in nearby markets. Potential buyers of these stocks include some of the more daring institutions and probably the average trading account.

► The final grouping is that of the highly speculative railroads and, as one might expect, these are mostly Eastern roads. Typical specimens include **New York Cen-**

tral, **Pennsylvania, Baltimore & Ohio, Reading, Erie-Lackawanna** and the **Delaware & Hudson.** Close examination of the problems of these carriers makes it hard to believe that any interest could be aroused in them. Here, the passenger problem is far more serious than that facing many roads in the West which can still live with their burdens. Here, too, the competition from trucks is the keenest and there is little indication yet that the rails are making any headway in their efforts to stem diversion of traffic to the motor carriers. Add in the additional burdens of heavy property taxes and high labor factors and the picture is indeed grim, particularly when one considers that most of the deferred maintenance in the industry is located in this one geographical area.

Leverage in Eastern Roads

► What are the attractions of these stocks and who buys them? Basically, the Eastern railroads serve the major heavy industry regions of the country and if the pickup in business continues in the vein which seems possible, a considerable uplift in traffic will take place for these roads. Needless to say, the increase will be well above average for the railroad industry as a whole. Thus, with a pronounced revival of volume on very lean cost structures, the highly leveraged Eastern carriers should sport impressive profit and loss statements in the months ahead.

Not only will the Eastern roads be the major beneficiaries of higher output by heavy industry, but they will also be the prime recipients of any relief which emanates from Washington, particularly in the passenger end of the business. Similarly, any charge in labor work rules which would permit more efficient work practices stands to provide the largest economies for the railroads with the highest wage ratios—again the carriers in the East.

Basically, then, the case for buying the shares of the Eastern railroads rests on the old saw: hope springs eternal! Add the potentially sharpest increase in earning power; sprinkle in a dash of political news from Washington and a touch of optimism on the featherbedding situation and you have the ingredients which tickle the palate of the speculators who buy the shares of the Eastern rails. It is hard to visualize a rail market without some participation on the part of those two titans of old: New York Central and Pennsylvania.

The Two Crippled Titans

New York Central is attempting to stage an earnings comeback over the balance of the year but its efforts are not likely to be sufficient to erase the eight-month deficit of $26 million. For the year as a whole, the road could be in the red by not more than $5 million or so, which would mean that a fairly good earnings showing would have to be accomplished in the closing months of 1961. With the big loss through August already a matter of record, the speculative following of this railroad may choose to focus on results in the months ahead which could be quite impressive in their own right. Accordingly, this laggard rail stock could participate more fully in any further upswing of the group.

Pennsylvania Railroad will incur a loss for 1961, according to official views. It will undoubtedly be smaller than the $26 million deficit for the first eight months of the year, which also suggests a good showing in the months immediately ahead. Perhaps more important than the monthly earnings statements still to be released in 1961 is the Pennsy's huge interest in Norfolk & Western. With 0.24 shares of Norfolk & Western Common for each share of Pennsylvania, the latter issue may well command a market following on the theory that it is a cheap way to acquire an interest in the profitable N.&W.

END

What Third Quarter Earnings Reports Reveal

See Our Issue of November 4

Britain's Agonizing Reappraisal And Decision

(Continued from page 131)

provide a substantial guarantee that their present trading advantages in the United Kingdom market would in no way be andangered by the new arrangements.

George Hees, the Canadian Minister of Transport, told the United Kingdom representatives in a blunt fashion that their government would be forced to choose between the Commonwealth and Europe, and Howard Fleming, the Canadian Minister of Finance, who was also present, stated that he did not see how the United Kingdom could enter the European Common Market and at the same time preserve the existing trading arrangements with the other regions of the Commonwealth.

At the end of the conference Canada, Australia, New Zealand, India, Ceylon and a number of the new African states issued a joint statement which expressed doubts whether the British Government could frame tariff agreements with the European Common Market countries which would safeguard Commonwealth trade interest in an adequate and effective manner.

It was generally agreed that any dismemberment of the present trade ties among the Commonwealth countries would damage some or all of them, with a particularly adverse effect on specific industries and areas. The communique claimed that this might force the countries of the Commonwealth to revise their trading policies and to form new international trading blocs, thus weakening the economic and perhaps eventually the political cohesion of the Commonwealth as a whole.

Difficulty of Maintaining A Foot in Both Camps

To be sure, Macmillan and other members of his Cabinet have assured the Commonwealth countries many times during the past year that they will make every effort to safeguard the interests of the latter in the United Kingdom Market in the negotiations with the Common Market countries. But the practical value of these assurances is questionable. **At the present time, owing to the shaky position of sterling and the unsatisfactory British balance of payments situation, Mr. MacMillan and his advisers are not going to be in a strong bargaining position.**

In any case, the Western European governments are under no compulsion to pay much attention to MacMillan's representations on this score. Indeed, the most that the British Government could hope for under the existing circumstances is a Common Market tariff structure whose duties would be low enough to allow fairly large quantities of farm products from such Commonwealth countries as New Zealand and Australia to continue to enter the United Kingdom market. If this should not please those countries it might not offend them too much.

Canada, Australia, More Seriously Affected

Of course, the interests of the Asiatic and African sections of the British Commonwealth in this situation are not as seriously affected as the white Dominions such as Canada, Australia and New Zealand, since most of the large exports of the former group, such as sugar, tea, jute and rubber, would probably continue to come into the new Common Market area practically free of duty. Indeed, the chief concern of these tropical members of the Commonwealth at the present time is the tariff preferences which the Common Market countries have already granted on similar imports from French North Africa and former regions of the French African Empire.

At the present time a great deal of controversy and discussion is going on in Canada and Australia concerning the exact effect which Britain's proposed new trade affiliation would have on the position of their export trade to the United Kingdom market.

Some observers claim that the Dominions might even benefit from the new arrangements in the long run because, with the probable further expansion of its economy during the next decade, the Common Market will offer an enlarged market for the exports of the Commonwealth countries which will more than compensate for the loss of their tariff preferences in the British market.

Further, certain important natural product exports to the United Kingdom, such as Canadian nickel and asbestos and Australian wool, will not be greatly affected by prospective tariff changes since they will probably continue to come into the new Common Market area free of duty. Some have gone so far as to suggest that Canada try to integrate herself into the European Common Market, but there has been little official interest displayed in this idea in Canadian governmental circles in Ottawa.

EEC Position on Farm Products Not Yet Defined

It has also been pointed out that the European nations which are at present members of the European Common Market have not yet made up their own minds about the tariffs which will be levied upon each other's exports of farm products. At the present time, both West Germany and the United Kingdom want to continue to give their domestic agriculture some protection, whereas France would like free trade in farm products throughout the Free Market area, together with tariffs on imports of farm products from the regions of the world outside Europe.

Britain Not Likely To Be Deterred By Objections

There is no doubt that the Macmillan Administration must have been surprised and somewhat annoved at the adverse reaction on the part of the Dominion and Commonwealth governments. But it is doubtful whether this opposition will cause Macmillan to suspend the discussions with the Western European countries on Common Market participation. It is still remotely possible that the negotiations may break down because of the inability of the British government to work out a satisfactory compromise on this vital question of imports from the Commonwealth countries.

► But if this arrangement does go through, and does not take a form satisfactory to the Dominions, these governments may be forced to make far-reaching changes in their own trade policies. Canada might be compelled, for example, to orient her export trade still more strongly in the direction of the United States than has been the case in the past, or to cultivate new markets in Latin America and Asia. Both Australia and New Zealand might similarly seek new markets in the United States and in Asiatic countries to compensate them for the loss of exports to the United Kingdom.

There has already been a rapid growth in the volume of trade between Australia and Japan during the past two or three years. At all events, many significant changes in the patterns of trade throughout the Free World will be bound to follow Great Britain's history-making entry into the European Common Market. END

The Battle For Trade

(Continued from page 119)

States was able to maintain for so many decades over foreign competitors is now a thing of the past. Is any easy, new solution of our problem in sight?

Automation, by this time an entirely familiar development on the domestic front, has had an economic significance that can hardly be exaggerated and has certainly sharply reduced the costs of repetitive operations. Just the same it is doubtful whether it can offer us more than a temporary advantage in world trade. Other countries can automate just as successfully as we can.

► In a recent TV program, Dr. Albert Burke cited the example of an English factory at Dorcester in which two specially designed machines working twelve hours a day can turn out all the light bulbs that are needed in the British Isles. Another significant automated process—which foreign factories can use just as well as our own—was the printing of complex radio circuits on a card, eliminating the former tedious wiring by hand.

As a matter of fact, foreign industry could even, in some cases, gain on us by the adoption of automation. This is because their workers are usually less trained than our own—and automation would simply allow them to dispense with semi-skilled workers. In other cases, foreign industry can take full advantage of our discoveries, avoiding investment in obsolescent intermediate stages; thus an Asiatic country installing telephones for the first time can go directly into the most up-to-date dial system. Finally, we are saddled with a heavy investment in obsolescent plants — many of which cannot be readily adapted to automation —while our competitors in western Europe and Japan often possess new plants with the most modern equipment.

► *Perhaps the most dangerous threat is that Soviet Russia, despite its large mass of inefficient, poorly trained and undernourished labor, could increase its efficiency enormously with only a small staff of competent technicians. In any case, automation is not going to provide an easy solution for our present competitive problems.*

What Can We Do?

Many American companies have solved this problem on an individual basis by "joining them," that is, by establishing subsidiaries and affiliates abroad. This Magazine has covered these developments in detail, describing both the companies involved and the various methods of participating in foreign industry.

But this provides no answer for the country at large; people are less mobile than capital, and most of us are going to have to stay here and face this problem of intensified foreign competition.

It should be evident immediately that there can be no complete solution. The end of the era in which America was the unchallenged industrial leader has come; in a sense many other countries have been "Americanized," and we shall have to accept the consequences, among them a continuing keen competition for international markets.

Tariffs — But we certainly should aim to hold our own, to prevent further deterioration in our relative position. Tariffs and other trade restrictions may suggest themselves as an immediate answer—only to be rejected after further thought. For they will give no protection in any foreign markets, usually invite retaliation, and would probably tend to increase the inefficiencies and high wage costs that are largely responsible for our present situation.

• A sound approach to our problems would be to assure that every artificial handicap against American industry is removed. This means, concretely, realistic depreciation rates reflecting inflation and obsolescence; a ceiling on overall corporate taxes, or at least some relief of double taxation; and a rigid restraint upon further wage advances in excess of productivity increases.

There are, of course, powerful political obstacles in the way of each of these corrective programs, but events may oblige the Administration to take the necessary steps if it is to meet the problems arising out of the cold war, and the disruptive international tensions that are bound to continue for some time to come. Under such conditions, as always, the genius of our people and the ingenuity of American business will come to the rescue and, as has been true throughout our history, will close ranks and stand together in any crisis that faces the nation. END

Discount Selling Revolutionizing Retail Store Operations

(Continued from page 138)

firm believer that it is extremely difficult, if not impossible, to raise a third-rate store in any community to the number one position. To do this one must change the "public image" that has been in the thinking of thousands of shoppers, perhaps for several decades. Thus, when making acquisitions, Lazarus has been willing to pay a good premium for the number one store and, once acquired, has worked hard to improve the efficiency of that store, often adding branches where the opportunity exists. Associated Dry Goods has made progress in much the same way, but Federated emphasizes full-line stores with hard goods important, whereas Associated stresses fashionable ready-to-wear. Federated

is apparently enough concerned about discount houses to meet competition in some areas with twig stores. As a growth situation the stock sells for about 25 times earnings and yields 2.1% on the dividend of $1.10.

Gimbel Bros. (81). Increasing profitability of branches, improved merchandising margins from the main stores, and successful cost reduction have contributed to Gimbel's sustained growth. From a 1950-52 average of $2.35, earnings per share have grown to a 1958-60 average of $4.40. So far, no plans to join the trend toward discounting are in evidence. The company plans to add two large branch stores in the Pittsburgh area and another near Washington, D. C. The stock sells at 17.2 times possible earnings this year of $4.90 and yields 2.7% on the dividend of $2.20. A year ago the company earned $4.55 per share.

R. H. Macy (65). In addition to the largest department store in New York, Macy's operates five major stores across the country and 30 branches. About 35% of the total floor space is in the New York area, 25% in New Jersey. Branch volume now accounts for about 40% of total sales. Promotion of credit business is helping volume as Macy's a few years ago was essentially a cash-and-carry operation; a shopper was required to have a covering balance in the "D. A. Account" before she could make a purchase. A total of ten new branches are either under construction or in the planning stage, and this represents a significant increase relative to the present operation. Near-term earnings are expected to improve somewhat over the 1960 earning power of roundly $4.00 per share. The stock yielding 3% appears reasonably priced and probably entails little downside risk.

Sears, Roebuck (72). Sears is showing one of the better sales gains this year over last year. September sales ran 7.7% ahead of last year with year-to-date volume about 3% ahead. The 75th anniversary sales have been a key reason for this gain. The company is also benefitting from last year's $69.2 million outlay for 22 new retail stores and 34 sales offices. While there may have been some mark-downs in connection with the sale, it is thought with some confidence that '61 earnings will top last years' $2.55 and that equity in subsidiaries' undistributed earnings may be somewhat ahead of last year's $0.44. On the surface the stock may appear expensive at 27.4 times possible 1961 earnings of $2.70, but if the undistributed subsidiary earnings are added in, the ratio is a more reasonable 23 times. So far, Sears maintains that it offers just as good values as discount houses and has not entered this field. While keeping its prices close to the discounters' tags, which is possible through high volume purchasing and an efficient organization, Sears also offers credit and other services such as repair and installation that most discount stores do not provide. The company's fine reputation stands behind the merchandise offered, another important advantage. However, Sears' management is not unmindful of the threat of discount houses, and it continues to tighten up its own organization. END

The Rise And Fall Of Glamour Stocks—And Why

(Continued from page 122)

diversification for auto parts and rail equipment manufacturers. In each case the companies had idle plant facilities which could be converted quickly, and at low capital costs, to the production of transistors and other electronic components.

The impact on the major transistor companies has been disastrous. If **Philco's** transistor business falters, the damage can be at least partially offset in other operations. But Transitron is solely a producer of semiconductors, and hence had nothing to relieve the full impact of competition and price pressures.

What is significant here for investors is that for both Transitron and Texas Instruments the fault doesn't lie with the companies. Management could undoubtedly see the handwriting on the wall. Rather the error was committed by unsophisticated analysis which failed to note that the pattern described **must** happen in any industry where there is no secret as to the methods of production and where many producers can enter the field cheaply. It is just a matter of time.

These two companies also point up another basic pitfall of speculative stocks selling at high price—earnings ratios. That is simply that their earnings must continue to grow or the props are pulled right out from under them. By contrast utility stocks and high quality industrial blue chips seldom react violently to a decline in earnings because investors are confident that in time the earnings picture will reverse itself again. No such confidence is felt in current favorites.

The Public Snatched Too Eagerly at Vending Machines

The vending machine issues also illustrate the dangers of even small earnings setbacks when speculative stocks fly too high. **Vendo** reached a high not too long ago of 77 on 1960 earnings of $1.20 per share. This is a price/earnings ratio of almost 70. When earnings fell by over 50 percent in the first half of this year, the stock virtually collapsed, sliding 31 points in a matter of weeks.

Universal Match presents exactly the same type of picture, except that the situation has been aggravated by the on-again-off-again merger negotiations with **Universal Controls.** But to explain the collapse in these stocks it is first necessary to understand their rise—and this provides some hope that the stocks may again recover.

Vending machines have understandably captured the imagination because they answer a simple and easily understood need. But of perhaps greater importance is the fact that they offer one of the few broad-scale means of participating in the enormous growth of services in our economy. Everyone know that the service industries comprise the most rapidly growing segment of the Gross National Product. But by their nature few of them offer much chance of public participation. Hence, when the vending machine producers and operators came along as publicly held companies they offered one of the few available investment opportunities in services. The result was the familiar pattern in which everyone tries to buy into just a few companies. Prices soar far out of proportion to reasonable earnings

expectations.

The saving grace for the disappointed investors in vending machine stocks is that the field is composed of literally hundreds of small operators, making it likely that the few big companies will be able to engage in aggressive acquisition programs that can provide big jumps in earnings in relatively short order. **Interstate Vending,** for example, one of the largest companies, has acquired over twenty independents in the last few years, and will probably continue on its gobbling course. So will the others.

In the meantime, however, the stocks are still overpriced even after their protected declines.

Hurrying Slowly

Underwood and **Nafi** are interesting cases because they illustrate the pitfalls of discounting changes too far in advance. Underwood had been a sick producer of typewriters which had sunk and lost a fortune in an abortive attempt to invade the electronic business machine field. Suddenly, when things looked blackest, Olivetti, the successful Italian business machine producer, bought 69% control of the company and all seemed healthy again. The stock soared—only to slide back almost 70 percent after investors realized that it would take years to rebuild the company into a profitable entity.

Seasoned investors realize that there is usually little promise in the faulty company trying to reverse a long run of bad luck. The occasional instance in which the resurgence is successful is far outweighed by the scores of failures. For every American Motors there are ten Studebakers.

Nafi is a different case, however, since it represents the attempt to use a corporate shell as the vehicle for constructing a diversified industrial empire. Its current structure boasts a major pleasure boat manufacturer, automotive textiles, oil and gas operations and two television stations.

The main excitement stemmed from its acquisition of Chris-Craft, the world's largest manufacturer of pleasure boats. But since the company had been privately held, few investors could accurately appraise its profitability. Furthermore, in the fever generated by speculators, even fewer realized that pleasure boat sales, especially in the higher brackets, would be subject to sharp swings along with general business conditions. When the facts of life were revealed, the stock plummeted over 60% to its present far more reasonable level.

Sensible Appraisal of Future Earnings Growth

The reasons for declines are usually obvious after the fact. But there is little value to ex post facto explanation unless it teaches lessons for the future. The lesson here is obvious. Any group of stocks that become popular investment favorites—especially if they represent new industries—will be carried to extreme price levels.

In some cases, such as **American Machine & Foundry,** there is a sufficiently strong earnings base to lend hope of recovery through a natural growth in earnings. But in the case of the true high flyers the jig is up once earnings growth halts.

One arithmetic example should make the point. If a stock is selling at sixty times earnings, and earnings are expected to double each year, then it is selling at thirty times next year's earnings, fifteen times the following year's profits and seven and a half times earnings four years hence. Under these circumstances a case could be made for paying such an enormous multiple.

But if, as is more likely, a good growth company settles down after an initial earnings spurt to a growth rate of 25% a year, then at sixty times earnings the investor is paying thirty times earnings three and a half years hence, and fifteen times earnings six years away. There is too much risk in earnings that distant to warrant sane purchases. This is why the stocks collapse as soon as there is a slight hesitation in the rate of earnings growth. END

The Fortunes Of The Natural Gas Industry

(Continued from page 141)

ing a new version of the "Harris Bill" which would support the use of an area formula rather than an individual case-by-case approach for setting producer prices. In a statement at the American Gas Association's Convention last week in Dallas, President L. T. Potter, endorsed the pending bill, noting that many representatives of the producers pipelines and distributors also supported it. He warned that industry recalcitrants who persist in opposing the area price in principle, might well cause significant amounts of gas to be held off the market. In any event, the pressures that are developing would appear to lend themselves to a period of price stability even though there may be a further eventual increase in field prices.

Can Higher Costs of New Fields Be Passed on To Consumer?

Despite its problems, the industry continues to foresee a period of extremely rapid expansion. The American Gas Association estimates that by 1970 the gas pipeline and distributing companies will spend a further $30 billion, a figure well in excess of $22 billion of assets at the end of December 31, 1960. Thus, gross plant of the industry, which more than doubled from 1951 through 1960, is expected to double again in the 1960-70 period. Of the estimated amounts needed for new construction, about $12 billion will be for transmission pipelines, $9.5 billion for distribution facilities, $6.1 billion for production and storage facilities and the remainder for underground storage and for other miscellaneous items. By any standard these are large sums, but they will undoubtedly be raised if necessary. The cost, however, is of direct interest to the investor, as the Commission seems willing to allow some of the higher gas costs to be passed to the consumer but apparently is reluctant to include any portion of higher financial costs.

If the equity return is held to 10 or 10½% and only partial allowance is made for incremental costs of debt, it is the senior security holder whose position will be eroded and who, therefore, will demand a greater return for his commitment of capital.

Further, if institutional buyers, such as insurance companies which have financed most of the industry's growth up to this point, were to cease providing capital, it would make it extremely difficult for the pipelines to expand their facilities.

Markets Now Being Threatened by Competitive Fuels

► The problem of winning an adequate selling price for gas is the crux of future earnings. Even now the competitive pressures from other fuels at the far end of some of the long distance transmission facilities are making themselves felt. A pipeline that is seeking a 7% overall rate of return on its capitalization (12% to 13% on the equity portion), and at the same time is having difficulty in selling gas for industrial uses, may be adding to its difficulties rather than alleviating them. This situation is not imaginary.

Practically all companies along the eastern seabord have felt the impact of this development in recent years. **Southern Natural Gas** has lost boiler fuel sales in Alabama as did **Northern Natural Gas,** at least temporarily, to an electric plant in Minnesota. Competitive pressures have also restricted growth of sales both to industrial and residential customers in the Northwestern states. This factor does lend stability to field prices, but at the possible cost of adequate future supplies. At the moment, it is difficult to foresee how the industry will solve this dilemma but greater flexibility both on the part of the Federal Power Commission and management of the industry appear to be an absolute necessity.

Two Categories of Companies

► The pipeline companies have been gradually divided into two separate categories. **El Paso Natural Gas Company, Tennessee Gas** and **Panhandle Eastern** remain deep in the morass of regulatory problems. Each has rate cases that go back to the mid-1950's and which still are not close to final settlement.

Others, such as **Northern Natural Gas. Texas Eastern, Texas Gas** and **Transcontinental Gas Pipeline** have reached agreements with their customers and are now able to calculate their future earnings with a fair degree of accuracy. Assuming the new Commissioner does not depart materially from either the past regulatory practices or statements made by the new Chairman, these companies should enjoy stabilized earnings and unjeopardized dividends. Because of the drain on cash caused by sinking fund requirements, however, any expansion still will have to be financed largely with new funds.

The outlook for **El Paso** continues to be shrouded in proceedings before the courts and the Commission.

Among the issues still to be settled are the rate of return, tax benefits to be allowed for statutory depletion and intangible drilling costs, return on well-mouth properties, retention of past tax losses and final authorization to merge the former Pacific Northwest Pipeline. In the latter case, the Supreme Court last week granted certiorari to the State of California, which is trying to dissolve the merger. The Department of Justice has also challenged the combination but is not yet actively pursuing its case.

Defensive Steps by Other Companies

Panhandle Eastern Pipeline continues to seek an order authorizing a fair value for owned gas reserves. Their claim is that they should be entitled to receive the same amount for their gas as an independent producer selling to them. Last month, however, the Commission, which then had a somewhat different composition, denied commodity value for natural gas and instead authorized a utility type rate of return for the company's well-mouth properties.

Tennessee Gas Transmission has taken some drastic steps to free itself from what it considers to be punitive regulation by the Commission. In February, 1961 it segregated all of its non-regulated properties, some 40% of the total, into a new corporation called **Tenneco** and then sold 25% of the voting interest in this new subsidiary so that it no longer had to consolidate the pipeline for income tax purposes. This was, in effect, a spin-off of a large portion of its facilities. While not suggesting that Tennesee has any plans in this direction, it would not be altogether inconceivable that Tennessee and perhaps others might try to sell the pipeline properties to the utility companies that buy gas from them.

Integrated Companies in More Comfortable Position

Integrated companies, especially those that are primarily distributors on the retail level, have continued to fare better than the transmission companies. **American Natural Gas, Peoples Gas Light & Coke, Consolidated Natural Gas** and others in this group, even though they are partially regulated by the Federal Power Commission, have benefited substantially from the hiatus in the rise in the price of gas. As future increases probably will be at a less rapid rate, the companies can promote the use of appliances with less opportunity for competitors gleefully to point to potential customers that gas prices have been raised numerous times.

More inducement for appliances is especially important at a time when new housing starts are at a somewhat lower rate than in the past and the saturation of the heating market, except in small pockets of the country, is so high as to preclude further important conversions from other fuels. Recognizing this fact, both the integrated companies and the straight distributors have been accelerating their promotion of air conditioners, gas fired refrigerators, clothes dryers and water heaters. The industry is also stepping up its research and development expenditures in order to develop still other important new applications for gas within the early future. These industry efforts are being significantly assisted by **Arkansas Louisiana's** manufacturing divisions, **Whirlpool Corporation, Carrier Corporation's** Bryant Division, and many others.

Distributors Very Favorably Situated Now

Among the distributing companies, **Arkansas Louisiana Gas** (which obtains about 40% of its income from manufacturing operations related to the gas industry) and **Northern Illinois Gas** are two of the leaders in developing new uses and seeking more efficient operating methods. **Northern Illinois,** in particular, has demonstrated a remarkable record of growth, and as it approached a high saturation in the heating market has simultaneously developed an effective promotional program for expanding other uses. A number of com-

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panies in the Southeast also appear to provide interesting long term opportunities as the gas air-conditioning market gains in acceptance. Among the companies that stand to realize the greatest gains from this source are **Atlanta Gas Light, Alabama Gas, Lone Star Gas, Pioneer Natural Gas and Southern Union.**

While the distributing segment of the industry presently is riding a crest, adequate gas supplies at fairly constant prices will be needed in the future if they are to continue to develop higher earnings. Anything the new Federal Power Commission may do to relieve the industry of the burden now encumbering it will be helpful.

• It is too soon, however, to draw conclusions as to a possible change in the investment status of the transmission companies. For the moment their attraction is substantially confined to their dividends and yields. For participation in the future growth of the industry the stocks of the distributors and integrated companies comprise the better vehicle.

• Over the short run the interests of the producers, transmission lines and distributors may often be diverse. Over the long run, however, all of them are equally dependent upon sound policies that will promote the discovery and development of adequate reserves. A more short-sighted attitude, either by individual companies or the regulatory agencies, will inevitably bring unpleasant consequences.

END

The Trend of Events

(Continued from page 112)

remains at a high level and wholesale prices have not shown any significant tendency to increase. However, Fed policy would necessarily become more restrictive, if our balance of payments position deteriorated markedly.

The Fed and the Dollar

International exchange markets are still nervous about the dollar. Early this month, over $100 million in gold flowed out in one week, partially due to the conversion of dollars obtained by foreign central banks as a result of British repayments of credits. *But the U.S. payments' situation in the last quarter of 1961 is expected to worsen, as exports tend to dip and imports to rise during a business recovery.*

If such an event coincides with other political or economic setbacks, there could be new troubles for the dollar. However, the recent cut in the British bank rate from 7% to 6½% will discourage the movement of short term funds to London from the U.S., as exchange hedging costs all but cancel out any potential profit. More international financial cooperation—although on a begrudging basis by some nations—is and will be a factor in the dollar's favor, and the recent IMF meeting, although disappointing, will result in additional funds to be made available in case new dollar troubles erupt.

The Fed will be keeping a close watch on such developments, which will be a crucial consideration in determining monetary policy. The latter, however, cannot be expected to be effective and workable, without disrupting the international flow of funds, if not accompanied by necessary fiscal and other measures—some of which might very well be new innovations. END

For Profit And Income

(Continued from page 143)

but have since had a good recovery to within fairly moderate distance of previous highs. The hurricane season is about over, and loss claims from Clara, mainly in Texas, are expected to be well under those from 1960's Hurricane Donna. Despite some exceptions, small underwriting profits will still be the general rule for 1961, thus representing extension of basic improvement. Investment income — predominant factor in total earnings and generally twice or more times dividends — is at new peaks. Recommended here earlier, Aetna (Fire) Insurance, Continental Insurance and Reliance Insurance have further potentias. END

Answers to Inquiries . . .

(Continued from page 152)

of the company stated that earnings, for the last half of this year, are now expected to exceed the final six months of 1960. Thus, earnings for the year 1961 are projected at more than $4.25 per share.

The indicated annual dividend rate is $3.30 per share, represented by quarterly dividends of 62.5 cents and an 80 cent extra, declared payable December 5 to stockholders of record on November 1. On November 16, stockhoders will vote on a proposed 3 for 1 stock split-up. The company has announced that it intends to place the new stock on an annual dividend of $1.10 per share.

From a low of 59 last year, the stock has advanced to a new high recently of 144½, and is currently selling at about 137. At the latter price, the stock is selling at more than 30 times estimated earnings for the year 1961 and yields less than 2.5%. Notwithstanding the strong position of the company, its prospects depend on continued consumer acceptance of its products in competitive markets. The business of the company cannot be viewed as entirely without risk. At the current price, the stock is selling at a relatively high multiple of earning power, thus discounting its prospects some time into the future, and the yield on the annual dividend is relatively low. Further, as indicated in your letter, the stock has more than doubled in price since its low of last year and, no matter how favorable the outlook may be, this must be viewed as a very rapid rise in price. Finally, you stated in your letter that your holding of this issue is large, at least in relation to your resources. Therefore, all things considered, we would not hesitate to advise that you sell at least one-half of your holding, thus reducing the element of risk in an overlarge position and taking a substantial profit. This step would still leave you with good representation in this issue, which could be retained for the longer term. END

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